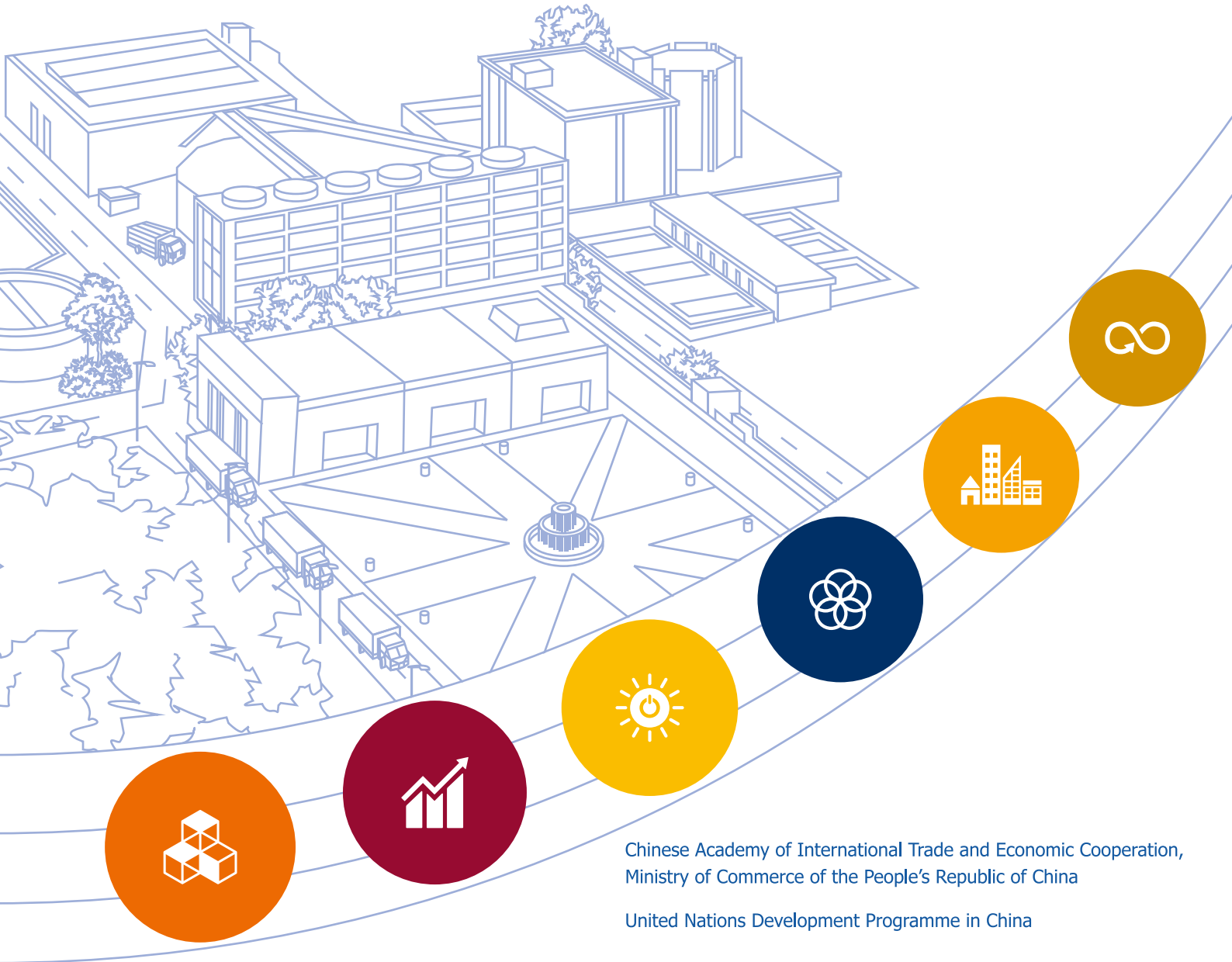
Report on Fostering Sustainable Development through Chinese Overseas Economic and Trade Cooperation Zones along the Belt and Road

Analysis and Practical Guidelines from Economic, Environmental and Social Perspectives



Chinese Academy of International Trade and Economic Cooperation,
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United Nations Development Programme in China

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Preface

China's vision for the Belt and Road Initiative is that it aims to realise diversified, independent, balanced, and sustainable development in countries along the Belt and Road[1]. That vision holds the prospect of many synergies with the Sustainable Development Agenda that was launched at the United Nations Sustainable Development Summit in 2015.

As a key platform for over 40 years' China's reform and opening up, implemented in a phased manner with limited resources, Special Economic Zones (SEZs) have facilitated industrial clustering and played an important catalytic role in the rapid economic growth and transformation of China. The establishment of Chinese Overseas Economic and Trade Cooperation Zones (COCZs), a special type of SEZ, during the past decade could function as an effective platform to leverage China's experience with rapid development to help address the economic and social development needs of host countries. At the same time, the global economic community is also exploring potential pathways of industrialisation through the establishment of economic zones, aiming to achieve economic, environmental, and social sustainability in the planning, development and operation of these zones.

The purpose of this report is to provide an entry point for policy-makers, COCZ developers, operators, and tenant enterprises to understand how COCZs, while achieving sustained growth, can also contribute to the achievement of the Sustainable Development Goals (SDGs) in countries along the Belt and Road. For this purpose, this report features a set of practical suggestions on how COCZs can simultaneously address economic, environmental and social sustainability throughout the whole process of the planning, development, and operation of COCZs. Closely aligned with the 2030 Agenda, this report is expected to help policy-makers, zone operators, and other relevant parties to understand how COCZs, while contributing to economic development, can also create social and environmental spillover effects. In addition, the report also features key global lessons of SEZs. Despite the success of the SEZs in China, this broader understanding of the role of COCZs is still in its early stage and COCZs still have much room for improvement. Therefore, this report not only refers to the good practices of COCZs, but draws on the experience of economic zones in other countries as well. The comparative analysis of different cases helps underscore the diversity of COCZs and the flexibility needed in design and operation to achieve sustainable development in the long run.

Overall, this report aims to offer a basic guiding framework for the development of COCZs, which covers relevant policy supports, theories, case studies, and practical suggestions. Through this report, relevant personnel are expected to build their overall understanding of the common practices and standards in the design and operation of sustainable economic zones around the world and thus strengthen efforts for the achievement of 2030 Agenda in the countries along the Belt and Road.

Research Team
April 2019

[1]National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce, People's Republic of China. *Visions and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*,2015.

Acknowledgements

This report compiles the efforts and knowledge of many parties from policy-makers, COCZ operators and enterprises, international organizations, and think tanks. We would like to extend our appreciation to the 42 COCZ operating companies who responded to the questionnaire and 67 stakeholders who were willing to be interviewed during the field research. Our appreciation also goes to the host country governments of the COCZs, and the management and enterprises in the COCZs for sharing their experience and views with the report writing group on issues related to the development and operation of COCZs even when very busy.

In addition, we greatly appreciate the consultant team from the United Nations Development Programme (UNDP), who have conducted multiple field studies in Cambodia, China, Egypt, Ethiopia, Indonesia, Nigeria and South Africa, providing professional support for the drafting of the report. At the same time, we are very grateful to Ministry of Commerce (MOFCOM) for their valuable support for the report launch. We are also thankful to Oxfam Hong Kong for their assistance. In addition, we would like to express our special thanks to the United Nations Development Programme country offices in Cambodia, Egypt, Ethiopia, and South Africa, Council for Promoting South-South Cooperation and International Investment and Trading Network for their important support for the field studies and the drafting of the report. Finally, we would like to extend our sincere appreciations to the leadership and colleagues of the Chinese Academy of International Trade and Economic Cooperation (CAITEC) of MOFCOM and the UNDP China for their strong support and hard work in producing the report.

As mentioned earlier, looking at COCZs from the perspective of sustainable development is new and innovative. Inevitably, this report cannot include all perspectives. Therefore, we welcome feedback corrections from our readers. Besides, this report is published in both Chinese and English, and the Chinese version should prevail in case of any ambiguity or conflict between the two versions.

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List of Acronyms

AGOA	African Growth and Opportunity Act
AU	African Union
CADFund	China-Africa Development Fund
COCZs	China Overseas Economic and Trade Cooperation Zones
CSIPC	China Suzhou Industrial Park Company
CAITEC	Chinese Academy of International Trade and Economic Cooperation
DTP	Dube TradePort Special Economic Zone
EPZ	Export Processing Zones
ESIA	Environmental and Social Impact Assessment
ETIDI	Ethiopian Textile Industry Development Institute
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
FTZ	Free Trade Zones
GHG	Greenhouse Gas
GTP	Growth and Transformation Plan of Ethiopia
HIP	Hawassa Industrial Park
ISO	International Organization for Standardization
IPDC	Industrial Parks Development Corporation
LFZ	Lekki Free Zone
LFZDC	Lekki Free Zone Development Company
MOFCOM	Ministry of Commerce
MOFA	Ministry of Foreign Affairs
NDRC	National Development and Reform Commission
PBC	People's Bank of China
PPP	Public-Private Partnership
SDGs	Sustainable Development Goals
SEZ	Special Economic Zone
SSEZ	Sustainable Special Economic Zone
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

Executive Summary

Since the beginning of China's Reform and Opening-up period in the late 1970s, rapid industrialisation has lifted hundreds of millions of people out of poverty by providing them with jobs and income. Various types of economic zones have served as important vehicles for kick-starting this process in the 1980s and 1990s and have helped achieve ongoing industrial diversification and upgrading. Since the late 1990s, China has also been establishing economic zones overseas to share its industrialisation experience and facilitate economic and trade cooperation with other countries. Today these Chinese Overseas Economic and Trade Cooperation Zones (COCZs) serve as key platforms for promoting investment and trade cooperation under the umbrella of the Belt and Road Initiative. At the same time the Belt and Road Initiative has many potential synergies with the 2030 Sustainable Development Agenda that was launched by all 193 members of the United Nations in 2015, along with its Sustainable Development Goals (SDGs). Most importantly, the COCZs along the Belt and Road aim to foster inclusive and sustainable industrialisation (SDG 9) at home and abroad, promote sustained economic growth, create decent jobs and income (SDG 8), help reduce poverty (SDG 1), hunger (SDG 2) and inequalities (SDGs 5 and 10), improve health and well-being (SDG 3), increase resource- and energy-efficiency (SDGs 6, 7, 11, 12) and reduce greenhouse gas and other polluting emissions (SDGs 13, 14 and 15). Therefore, COCZs along the Belt and Road have the potential to be much more than just engines of trade and economic growth; they can also represent potentially important instruments to advance environmental and social sustainability and through this the achievement of the SDGs in their respective host countries. While many COCZs have achieved impressive progress toward these goals, there is still considerable room for improvement.

This first-of-its-kind report reviews the contributions of COCZs to sustainable development across Belt and Road countries and provides guidelines for COCZs on how to further improve their efforts towards fostering inclusive and sustainable industrialisation and the achievement of the SDGs. Findings of the report are based on a global survey of COCZs conducted by the Chinese Academy of International Trade and Economic Cooperation (CAITEC) under MOFCOM from December 2018 to February 2019. Guidelines for COCZs have been developed based on a comprehensive literature review of existing approaches to incorporating economic, environmental and social sustainability practices in COCZ planning, development and operation. Findings from the literature review were complemented by first-hand insights from COCZ and SEZ developers, operators, companies and workers through a total of 67 semi-structured interviews conducted in Cambodia, China, Egypt, Ethiopia, Indonesia, Nigeria and South Africa, which laid a solid foundation for the development of a set of practical guidelines to help COCZs address economic, environmental and social sustainability at different management stages (planning, construction and marketisation).

The report is organized in five chapters. Chapter 1 provides an overview of the historic development of COCZs, their key roles and status under the Belt and Road Initiative as well as the policy guidance and support that the zones receive to contribute to sustainable development. The chapter concludes with a review of interlinkages between COCZs and the achievement of the SDGs. Chapters 2, 3 and 4 focus on economic, environmental and social sustainability,

respectively. Each of these chapters starts out by highlighting the experience and achievements of COCZs in these areas to date and is followed by practical guidelines on how to ensure that COCZs play a bigger role in sustainable development in the future. The guidelines include practical examples from COCZs and other SEZs that illustrate the "business case" for economic, environmental and social sustainability as well as how actions in these areas contribute to the achievement of the SDGs.

Finally, in chapter 5, the report offers overall conclusions and puts forward specific recommendations on how to enhance the roles of COCZs in fostering sustainable development along the Belt and Road. These overall recommendations include: 1) Establish demonstration centres for sustainable COCZ models; 2) Create an experience and knowledge sharing mechanism for COCZs under the Belt and Road Initiative; 3) Identify new paths for COCZ financing.

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1. Chinese Overseas Economic and Trade Cooperation Zones (COCZs) as Important Vehicles for Fostering Sustainable Development in Countries along Belt and Road

In the past decade, the continued development of China overseas economic and trade cooperation zones (COCZs)[2] has expanded the range of opportunities for China's economic growth, and helped host countries achieve industrialisation as well. They have become an important vehicle for China to open up to the outside world and promote the Belt and Road Initiative.

1.1. Historic development of COCZs

COCZs were created based on the important experience China gained in implementing its reform and opening-up policy over the past 40 years. Achievements have been made in the course of China's economic development, as evidenced by rapid growth in various sectors, manufacturing in particular, which would have been impossible without the domestic special economic zones. Based on domestic experience under the reform and opening-up policy, COCZs have been run with limited resources driving progressive development featuring modern flat management. Under these circumstances, COCZs are making the gradual transition from labour-intensive processing trade sectors to hi-tech zones, science parks and business incubators that are capital-intensive and technology-driven. In doing so, they build on China's vast domestic experience with the successful planning, development and operation of various types of economic zones, including Special Economic Zones, Economic and Technological Development Zones, High and New Technology Industrial Development Zones, Comprehensive Development Zones, Free Trade Zones, Bonded Areas, Export Processing Zones, Logistics Parks and Industrial Parks; COCZs are open for further development.

Chinese companies began to explore building COCZs in the late 1990s. On the one hand, as China's successful experience in building industrial parks received considerable attention from the developing world, promoting economic development by learning from Chinese parks garnered considerable interest in some developing countries. For example, in 1994, Egypt's then President Muhammad Hosni El Sayed Mubarak visited China's Tianjin Economic-Technological Development Area (TEDA). Impressed with TEDA's achievements, he invited the company that had developed the area to Egypt to share its experience and support the development of a similar area there.

[2]According to the Ministry of Commerce of the People's Republic of China (MOFCOM), COCZs refer to industrial parks that are independent legal entities and receive investment from and are established overseas by Chinese-owned companies that are registered in the territory of the People's Republic of China (excluding Hong Kong, Macao and Taiwan) and have independent legal status. COCZs should be equipped with complete infrastructure, and have a clear industrial development strategy, and provide sound public services, promote industrial concentration and play a catalytic role for local development. Available from: http://fec.mofcom.gov.cn/article/jwjmhzq/article02.shtml

On the other hand, some Chinese companies started to increasingly internationalise and therefore established COCZs as platforms for their business expansions abroad. In this phase, the COCZs were mostly built by companies who wanted to buy or rent land abroad to meet their development needs and who raised funds by themselves to build infrastructure, attracting other companies to set up operations nearby. In 1998, Fujian Overseas Chinese Industrial Group Co., Ltd. founded a joint venture in Cuba, which occupied an area of 60,000 square metres for the overseas processing trade in 2000. In 1999, Haier Group, aiming to tap the American market, built an industrial park in the state of South Carolina for research & development, design, and production, which later became known as the Haier America Industrial Park. In June 2004, Tianjin Bonded Area Investment Company established the Tianjin America Business Industrial Park in the State of South Carolina, U.S. The COCZs built during this stage were primarily used for the business operations of individual companies.

Since around 2006, COCZs entered a new development stage characterized by collaboration between governments. Haier-Ruba Economic Zone marked the first COCZ jointly approved by the governments of both China and Pakistan. China's Ministry of Commerce (MOFCOM), the China Export & Credit Insurance Corporation, and the China Development Bank, etc. have introduced a series of policies to regulate and support COCZs, with a view to encouraging the development of COCZs. Since then there has been a rapid increase of COCZs and two types of COCZs have emerged most prominently:

- **A COCZ industry-specific model that is dominated by the companies that established the zone.** For instance, Haier Group was a driving force behind the establishment of the Pakistan Haier-Ruba Economic Zone and brought other Chinese companies into the zone. Together the companies formed a new industrial cluster focused on home appliances and electronics. The same approach was taken by companies led by China Nonferrous Metal Mining Group (CNMC), which led the development of one of Zambia's first economic zones, the Zambia-China Economic and Trade Cooperation Zone. The zone established an industrial cluster based on CNMC's most competitive business areas, such as mining, exploration and smelting. Companies which set up business operations in the zone provided services based on the core industries of the COCZ-builders, thereby generating an industrial chain that puts the COCZ-builders at the centre.

- **A comprehensive COCZ model that allows specialised industrial property developers to build and operate COCZs.** China Merchants Group and other competitive specialised industrial property developers in China establish COCZs through overseas land leasing and/or through infrastructure construction that meets the "seven accesses and one leveling"[3] standards. These developers use their own advantages to attract companies and thus form a distinct COCZ model that has no specific dominant industry but well-functioning facilities and services and strong commercial value.

[3]"Seven accesses and one levelling" (also translated as "seven accesses and site levelling") is a widely recognized infrastructure standard in China (in Chinese 'Qi Tong Yi Ping'), which refers to access to road, water, electricity, sewage, heating, telecommunication, gas, and land levelling.

Aligned with the local needs and resources, the COCZs serve as a platform to share their experience. By 2018, those COCZs made a total investment of over USD 40 billion, paid over 3 billion in taxes to host countries and created over 300,000 jobs for the local market (MOFCOM 2018). As one of the important ways in which China promotes overseas investment and cooperation, the COCZs are now gradually serving as a platform where China can have economic cooperation and trade with other countries, in a way that not only helps drive the industrialisation in host countries but the development and upgrading of some of their key industries, such as textiles and other light industries, home appliances, steel, building materials, chemical, automobile, machinery, and minerals industries. While promoting industrial development, the COCZs have created jobs and tax revenues locally and improved local income levels. In addition, the COCZs and the companies that set up their business operations there are taking an active part in fulfilling their corporate social responsibilities and in facilitating cultural exchange between the Chinese people and the peoples of the host countries, cementing people-to-people ties.

1.2. COCZs and the international discourse on special economic zones

COCZ development is not only an important channel for the partnering countries to understand China's key development concepts and models but also an important platform for China to share its development experience with the world. At present, the theoretical research related to COCZs mainly focuses on three aspects: international investment theory, new economic geography theory and development economics theory. International investment theory focuses, inter alia, on the motives of cross-border investment activities of enterprises. The new economic geography theory mainly explains the phenomenon of industrial clustering in the construction of cooperative areas, while the theory of development economics is aimed at the geographical distribution of foreign economic and trade cooperation zones and the economies of host countries.

1.2.1. Development economics theory and COCZs

Economic development since the end of the Second World War has demonstrated that the concept of classical liberal economics is not fully applicable to developing countries. An increasing body of research argues that developing countries achieve economic development by relying more on government interventions with a focus on realising industrial policies. Chinese and international scholars argue that on the one hand, the inherent system imperfections in developing countries restrict the regulatory role of market price mechanisms. This has been demonstrated in Lewis's Dual-Sector Model (Lewis 1954), Rosenstein-Rodan's Big Push Theory (Rosenstein-Rodan 1961), Nurkse's Model of Vicious Circle of Poverty and Economic Development (Nurkse 1953), Hirschman's Unbalanced Growth Theory (Hirschman 1958) and Chenery's Two-Gap Model (Chenery and Strout 1966).

In summarising the economic development achievements of East Asian countries, in particular regarding China's economic development, Chinese scholar and former Chief Economist of

the World Bank, Justin Yifu Lin developed the New Structural Economics Theory (Lin 2012), underscoring the active interventions of government based on factor endowment advantages and market resources allocation and support from government in driving economic development as well as optimising and adjusting industrial structures by means of industrial policies. However, the New Structural Economics theory also argues that the structural problems of the international economic system leads to the inability of developing countries to become fully involved in international supply chains and rewarded by relying on their own endowment and advantages. Hence, the theory proposes that developing countries transition from the traditional Core-Periphery Theory (Krugman 1991) to a dual cycle structure, creating a pattern that features developed countries as one core and economically emerging powers as another, in a bid to push forward the balanced and sustainable development of the global economy and encourage South-South Cooperation.

China's economic zones have gone from a focus on labour-intensive production to capital- and technology-intensive production and now serve as innovation hubs that have created sophisticated industrial clusters and supply chains. China's experience in this regard gives significant advantages to the companies that develop COCZs and demonstrates to the world in concrete terms how economic development can be achieved through such zones, taking into account different local circumstances. From the perspective of development effectiveness, the COCZs can be seen as a new model of Chinese businesses "Going Global", which has facilitated foreign direct investment in other developing countries that is stable in the long term and has become a new model of South-South Cooperation.

The COCZs consider the endowment advantages of the local market in terms of location selection and industrial layout arrangements in the host country, and engage in economic and trade cooperation through enterprise-led and market-oriented principles, respecting the adjustment effect of the market and price mechanisms on investment flows. At the same time, through cooperation with the local government of the host country, the COCZs have the potential to promote local economic development and industrial agglomeration on the basis of local comparative advantages, which in turn has made the COCZs a new driver for regional economic growth, facilitating cooperation on and building of the Belt and Road Initiative.

1.2.2. New economic geography theory and COCZs

Prior to the birth of the new economic geography (NEG) theory, industrial clustering research was mainly focused on classical location economic theories, which mostly derive from the practical lessons learnt throughout the industrial clustering development of developed countries since the nineteenth century. Scholars in the early days focused on explaining the optimal planning of costs of production when dealing with location theory. In the 1930s, Christaller (1933), Losch (1940), and other scholars introduced consumer markets into the framework of classical location theory, analysing the influence of the distribution of consumer markets and raw materials markets on industrial clustering. They argued that industrial clustering is determined by the natural geographical distribution of factors and markets, based on the hypothesis that markets are perfectly competitive, and business returns to scale unchanged. In the 1970s, Dixit and

Stiglitz (1977) introduced increasing returns to scale and monopolistic competition into location theory, overturning the previous perception that industrial clustering is caused by initial factor endowment, and highlighting that industrial clustering is a self-organising and self-evolving process. As indicated by the Core-Periphery Theory (Krugman 1991), with transportation costs reduced, initially disperse production and populations would begin to cluster and form core industrial areas and peripheral agricultural ones, which explains the problems of urbanisation, metropolitan growth, and reduction of industries and populations in peripheral rural areas. Later, Fujita (Fujita et al. 1999) and Baldwin (Baldwin et al. 2003) among others, expanded the scope of the NEG research to cover the limited effects of the mechanisms of clustering, the evolution of clustering, and international trade on internal economic geography and knowledge spillover, government tax competition and welfare.

As the development of COCZs shows, the zones in the early days were either near consumer markets (e.g. the Haier America Industrial Park), close to raw materials markets (e.g. the Ussuriysk Economic and Trade Cooperation Zone in Russia and the Indonesian Morowali Industrial Park), or not far from labour-intensive markets or regions that were convenient for exports (e.g. the Long Jiang Industrial Park in Vietnam), all of which reflect a cost-driven development model that is in line with the general laws of classical location theory. With the growing success of the early COCZs, more and more Chinese and international companies have been setting up their operations in these zones. As the industrial structure of the zones has become increasingly sophisticated, industries in the zones increasingly complement each other to achieve economies of scale and self-sufficiency. Hence, the zones have broken away from total reliance on natural geographical factors. As host country governments become increasingly aware of the significance of the zones for driving local and national economic growth and promoting industrial transformation and upgrading, interest in jointly establishing further COCZs is on the rise. In 2015, the China-Belarus Industrial Park became the first COCZ to be jointly built after bilateral discussions between the two governments. COCZs have now evolved into a new model of international economic cooperation that is receiving growing recognition around the globe.

1.3. COCZs as platforms for achieving the SDGs under the Belt and Road Initiative

In the foreseeable future, global economic growth will continue to be led by developing countries in Asia and Africa. According to the latest forecast of the International Monetary Fund in 2019 (IMF 2019), seven of the fifteen economies with the fastest real GDP growth are in Africa (10.8% in Libya, 8.5% in Ethiopia, 7.8% in Rwanda, 7.6% in Ghana, 6.7 in Djibouti, 6.7% in Senegal and 6.6% in Tanzania) and five in Asia (7.4% in India, 7.1% in Bangladesh, 6.8% in Cambodia, 6.8% in Myanmar and 6.6% in the Philippines). The economic growth of these countries is increasingly based on industrialisation. Most of these countries have been experimenting with special economic zones (SEZs) to achieve economic growth. Achieving the Sustainable Development Goals (SDGs) in those countries will to a large extent depend on the success of their industrialisation and more importantly, on which industrialisation path to take. Therefore, it is essential to demonstrate how the planning, development and operation of SEZs can contribute to the three dimensions of sustainable development (economic, environmental and social).

In 2015 China's State Council authorised a document issued by the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs (MOFA) and MOFCOM that defines the Belt and Road Initiative's vision as well as actions for turning this vision into reality (NDRC 2015). COCZs are highlighted as a way for exploring "a new mode of investment cooperation" along the Belt and Road, stressing that such cooperation should conserve the environment, protect biodiversity, and tackle climate change (NDRC 2015). COCZs can play a key role in this regard as they continue to bring the concept of SEZ-based industrialisation to Belt and Road Initiative and can function as a blueprint for aligning industrialisation with the SDGs. First and foremost, COCZs that are planned, developed and operated sustainably will significantly contribute to the achievement of SDG 9 on building resilient infrastructure, promoting inclusive and sustainable industrialisation and fostering innovation. However, it is important to highlight that SDG 9 has strong interlinkages with most of the other SDGs, including decent work and economic growth (SDG 8), no poverty (SDG 1), zero hunger (SDG 2), quality education (SDG 4), gender equality (SDG 5), reduced inequalities (SDG 10), responsible consumption and production (SDG 12), climate action (SDG 13) and life on land (SDG 15) among others. Therefore, COCZs along the Belt and Road have the potential to be much more than just engines of trade and economic growth as they can also significantly contribute to environmental and social sustainability and through this to the achievement of the SDGs in their respective host countries. This is in line with the guidance from Chinese government agencies to COCZs and overseas companies to take a holistic and long-term business approach that protects the environment and delivers social benefits to local communities and countries as a whole as outlined in sub-chapter 1.4 below. While many COCZs have achieved impressive progress toward these goals, there is still considerable room for improvement.

Chapters 2, 3 and 4 show how COCZs are already contributing to sustainable development in their host countries and provide practical guidelines for Sustainable COCZs as summarised in Figure 1 below. The figure also provides a high-level overview of interlinkages between economic, environmental and social sustainability and the SDGs by highlighting those SDGs with the strongest interlinkages under the respective categories.

Figure 1: Sustainable COCZs and SDG linkages

1.4. Policy support and guidance for fostering sustainable development through COCZs along the Belt and Road

For many years Chinese government agencies have been supporting domestic companies entering foreign markets by providing them with guidance and information to better undertake cross-border operations and integrate into global industries and value chains while at the same time contributing to sustainable development abroad. Some of the key guiding documents in this regard are listed below:

- **Integrating sustainable development into corporate management regulations**

The Administrative Measures for Outbound Investment issued in 2014 stipulates that overseas companies are required to abide by local laws and regulations, respect local customs, fulfil social responsibilities, protect the environment, offer labour protection, develop a sound corporate culture, and integrate with local communities. Furthermore, the Administrative Measures for Enterprise Outbound Investment enforced in 2018 requires overseas companies to uphold management practices for maintaining integrity, protecting the legitimate rights and interests of their staff, respecting local public policies and customs, fulfilling corporate social responsibilities, protecting the environment, and demonstrating a good image of Chinese investment.

- **Providing companies with insights on business operation rules, local culture and customs, and environmental protection requirements of host countries**

MOFCOM has been regularly issuing updates of its Guidelines on Outbound Investment Cooperation by Country (Region) and Report on Development of China's Outbound Investment to provide companies with the latest information on the domestic and local investment and business environment of their host countries and regions. Furthermore, China's State Taxation Administration regularly updates its Guidelines on Investment Taxation along the Belt and Road by Country to help interested companies better understand the tax systems of the different Belt and Road countries.

- **Integrating cultural and social aspects in overseas business operations**

To encourage Chinese companies to better adapt to the new circumstances under which the "Going Global" strategy is being implemented, and achieve the results defined by the government as "developing core values, building sound images, delivering mutual benefit and win-win results, and achieving sound and sustainable development abroad", MOFCOM and the All-China Federation of Industry and Commerce co-developed Suggestions on Developing Corporate Cultures of Chinese Overseas Companies in 2012, which points out specific requirements such as upholding legitimacy and compliance, abiding by the code of ethics, sticking to good-faith operations, undertaking corporate social responsibility, and getting more involved with local communities, in a way that has driven common development and the integration between Chinese companies and

local communities.

• Fostering environmental protection along the Belt and Road

Environmental protection has now become an issue of common concern to the international community, posing a challenge to all countries across the globe. The Chinese government has attached great importance to environmental protection both at home and abroad. In 2012, MOFCOM and the then Ministry of Environmental Protection jointly released the Guidelines on Environmental Protection of Outbound Investment and Cooperation. In 2017, the then Ministry of Environmental Protection, together with the Ministry of Foreign Affairs, the National Development and Reform Commission, and MOFCOM, jointly issued the Guidelines on Green Development along the Belt and Road. The Guidelines state that over the next three to five years a pragmatic and efficient eco-environmental cooperation and exchange system, a support and service platform for industrial technology cooperation, and a series of eco-environmental risk prevention policies and measures will be put in place. Furthermore, over the next five to ten years, a relatively complete eco-environmental protection service, support and guarantee system will be built and a number of important eco-environmental protection projects will be implemented, ensuring the ecological integrity of investment activities in Belt and Road countries.

• Fostering honest business behaviour

In 2017, NDRC, People's Bank of China (PBC) and MOFCOM jointly signed the Memorandum of Cooperation on Joint Punishment to Seriously Dishonest Entities in Foreign Economic Cooperationaimed at building a social credit system in foreign economic cooperation that rewards ethical behaviour and punishes dishonest behaviour, fostering a sound business environment. As pointed out in the Memorandum, where an entity participating in foreign economic cooperation, including international capacity cooperation, and cooperation on facilities connection, trade facilitation, and financing, or the relevant person liable, violates any relevant law or regulation of China or the host countries, international conventions, or resolution of the United Nations, or disrupts the order of foreign economic cooperation, adversely impacting the implementation of the Belt and Road Initiative, damaging the reputation and interests of China, the relevant government department shall enter the dishonest entity, the person liable, and the act into their social credit records for enforcement of joint penalties.

• Fostering sustainable compliance management processes

In December 2018, to better guide Chinese companies in overseas sustainable development, NDRC, MOFA, MOFCOM, PBC, the State-Owned Assets Supervision and Administration Commission of the State Council, the State Foreign Exchange Administration, and the All-China Federation of Industry and Commerce developed and released the Guidelines on Business Overseas Operation Compliance Management, offering more specific and practical guidance for Chinese companies going global. In December 2017, NDRC, MOFCOM, PBC, MOFA and the All-China Federation of Industry and Commerce issued the Code of Conduct for the Operation of Overseas Investments by Private Enterprises, which provides guidance to overseas investment and management of private

businesses from the perspectives of corporate governance, legal and compliance and integrity management, corporate social responsibility, environmental protection and risk management.

- **Enhancing risk prevention in COCZs**

In 2010, MOFCOM and the China Export and Credit Insurance Corporation decided to work together to build a risk prevention system for COCZs with MOFCOM promoting and supervising risk prevention in the COCZs based on risk analysis and risk management solutions offered by the China Export and Credit Insurance Corporation. MOFCOM works in this regard at the government, zone and company levels to strengthen risk control capabilities and promote the use of policy-based insurance tools to evade risks.

- **Ensuring comprehensive COCZ development**

In 2015, MOFCOM issued the Model Service Guidelines for COCZs, which require the COCZ developers to offer consulting services to companies operating in the COCZs so as to ensure support for their business operations. Such consulting services should include policy consulting, legal service and product promotion, operating management services that include business registration, finance and tax related matters, customs declaration, human resources, financial services, and logistics services, as well as property management services that include rental services, plant building, manufacturing supplies and services, residential facilities, repair services, and medical services.

2. Economic Sustainability: Status and Experiences of COCZs and Guidelines for Sustainable COCZs:

Sustainable economic development is a common aspiration of China and countries along the Belt and Road. COCZs promote economic development, industrial upgrading, and infrastructure construction in the host country. This chapter provides an overview of key elements in sustainable economic development and outlines the major factors that developers and operators of the COCZs need to consider in order to ensure the economic sustainability of the zone.

2.1. Economic sustainability: Status and experiences of COCZs

• Pursuit of long-term sustainable profitability

Based on responses received to the survey[4], COCZs are predominantly economically sustainable with 12% of the zones making substantial profits, 33% being profitable and 19% operating on a cost covering basis. However, 36% of COCZs are not yet profitable (see Figure 2 below). Due to the large scale of investment required and the usually long construction periods, it is normal that zones that have just become operational or are not yet operational are not profitable.

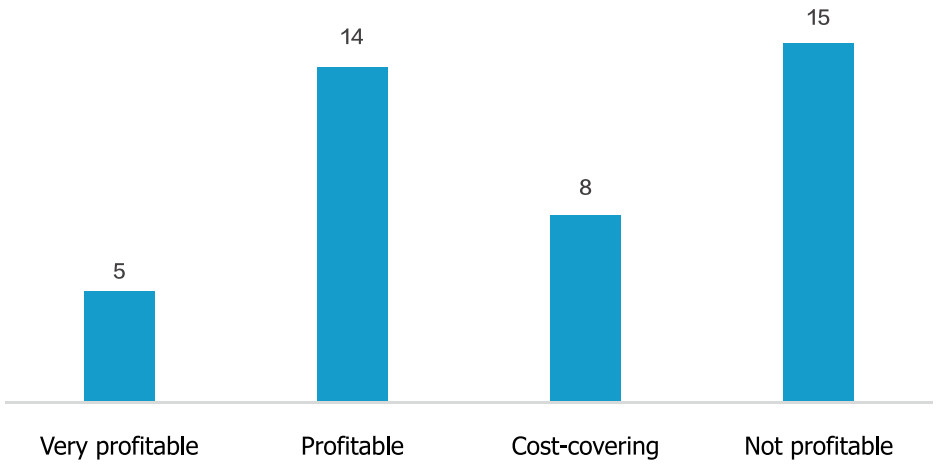


Figure 2: Profitability of COCZs

[4]The research team attempted to conduct a global survey with the 99 COCZs; however, due to many factors such as contact person change and holidays, only 42 COCZs were able to reply to the survey with responses duly received from COCZs in 20 out of 44 countries, which equals a response rate of 42%.

It is important to note that less than half of the zones have been in operation for more than ten years and that zones that are not yet profitable are mostly among this group (see Figure 3 below).

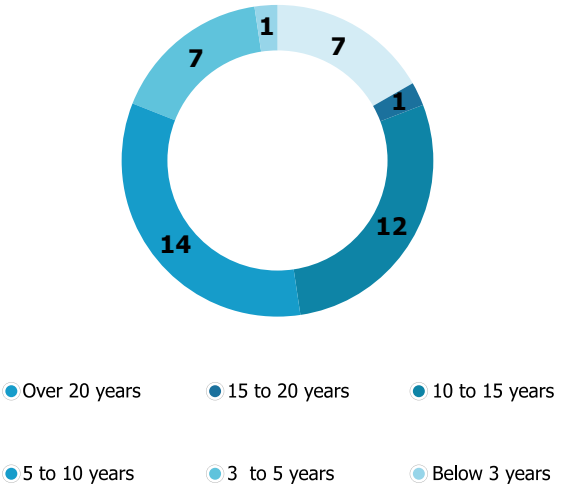


Figure 3: Years of overseas operation of COCZs

Of equal importance in this context is to consider the huge investment volume of most of the COCZs with 19 out of 42 surveyed COCZs (45%) having invested between USD 100 million and USD 500 million, 3 (7%) between USD 500 million and USD 1 billion and 6 (14%) over USD 1 billion (see Figure 4 below). Overall, the zones with a larger investment volume tend to take longer to become profitable.

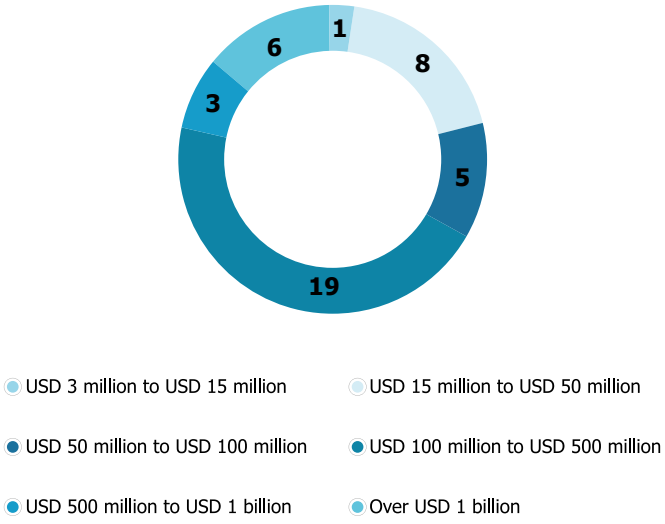


Figure 4: Investment scale of COCZs

- **Difficulties in financing with limited financing channels**

COCZ operators highlighted financing as their major challenge. This includes both the 39% of respondents that said that they received financial support from financial institutions, Chinese commercial banks or local banks as well as the 61% of respondents that said they have not received any type of financial support. Some COCZ operators pointed out that it was difficult to access financing from multilateral financial institutions and that cooperation with such institutions should be strengthened in the future.

- **Developing diversified income sources**

A review of the profit models of COCZs shows that most of the zones rely on self-operated industries and the rent of land and factory buildings. Other key income sources include the provision of business services to companies invested in the zone (see Figure 5 below).

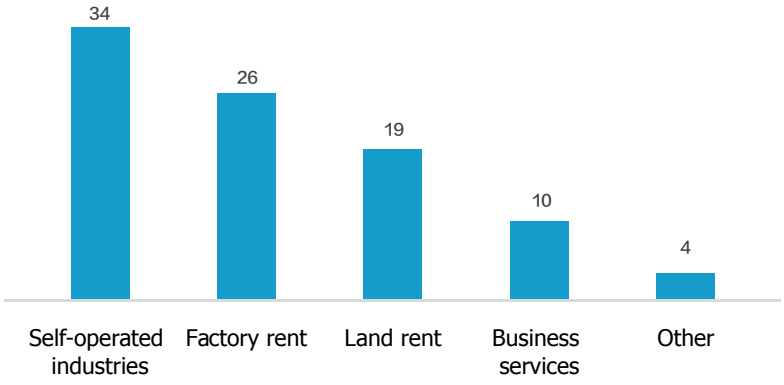


Figure 5: Profit models of COCZs (multiple-answer question)

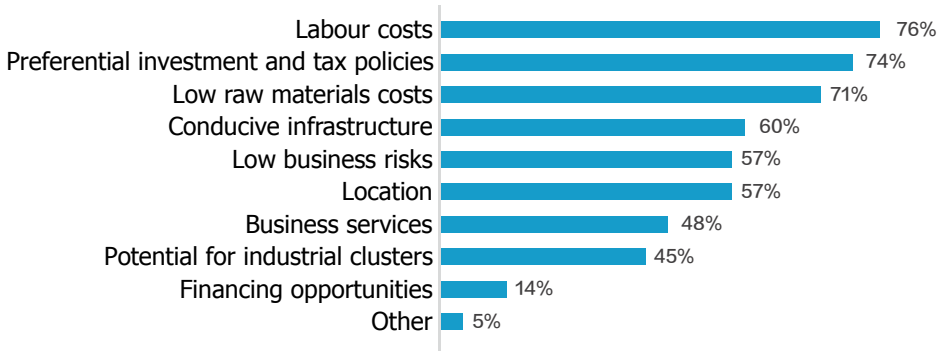


Figure 6: Key factors for attracting companies to COCZs (multiple-answer question)

- **Lower costs and business environment as key factors for attracting investment to COCZs**

From the zone managers' perspective, the following aspects are the most important for attracting companies to invest in their zones: low labour costs, preferential investment and tax policies, and low raw material costs, followed by conducive infrastructure, low business risk and location (see Figure 6 below).

- **Location and host government supports as key success factors in the economic sustainability of COCZs**

Many COCZs highlighted site selection as a key aspect of the sustainable economic development of the zone. The availability of land, labour and related facilities as well as infrastructure connectivity to national and international transportation routes and related logistics costs were highlighted as important factors in the selection process, which have been identified by over 50% (multiple-answer question) of surveyed COCZs (see Figure 7 below).

The vast majority of COCZs (84%) said that the host country government is either supportive or very supportive of the COCZ model and has been providing political support for zone development and operation.

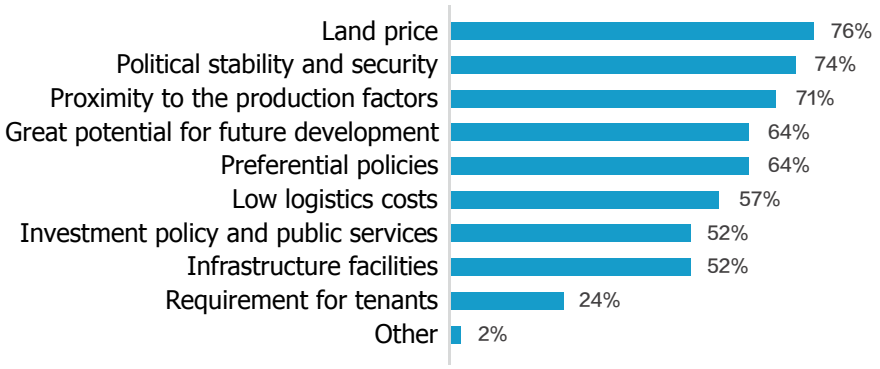


Figure 7: Main factors considered in the site selection of the COCZs (multiple-answer question)

• Complete ancillary facilities established in most COCZs

Infrastructure investment in the COCZs can help accelerate development of transportation, energy and communication infrastructure, reducing the infrastructure costs for the tenants and contributing to the economic and social development of the host countries. At the same time, it can provide ideal conditions for tenants to conduct business, which helps shorten the investment cycle and improve economic efficiency.

According to the survey results, most of the COCZs have built ancillary facilities. Of the 42 zones, 93% have administrative committee offices; and 88% have built staff quarters; 73% have built one-stop service centres; 63% are able to provide basic auxiliary services including medical services, education, banking and catering; and 49% have established employee vocational training centres (see Figure 8 below).

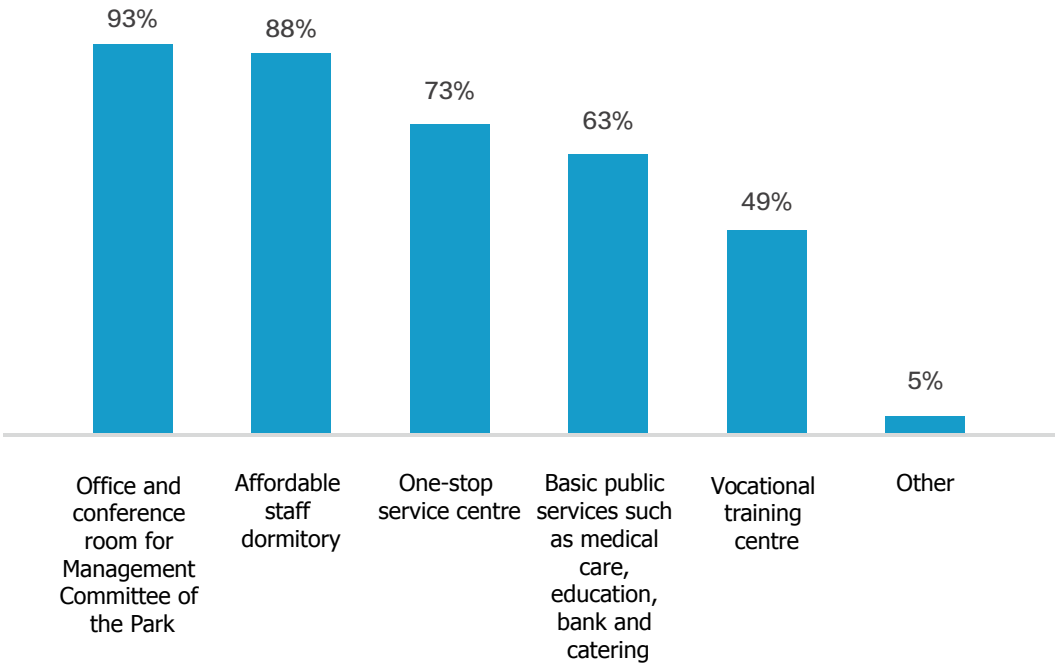


Figure 8: Ancillary facilities of the COCZs (multiple-answer question)

• Key challenges of the integration into local value chains

The localisation of procurement and sales is an important feature of enterprises carrying out foreign investment and production. By localising procurement and increasing the local market share, the tenant enterprises in the cooperation zone can be better integrated into the local economy and drive the economic growth of the host countries.

Of the 42 COCZs surveyed, the products produced by enterprises in 19 COCZs are producing for the local market, China, and the third countries, which indicates that though COCZs mainly build production bases in the host country, they also serve the international market. The sources of

raw materials for production in the zones are quite diversified. Of the 42 COCZs surveyed, 98% procure from the host country, 86% from China, and 64% from other countries (see Figure 9). COCZs established by Chinese enterprises have effectively boosted the needs of the host country's upstream industries. But at the same time, when trying to purchase local products and services, respondent enterprises face challenges, such as higher prices (67%), unavailability of products or services (62%), quality issues (43%) or insufficient quantity (38%) (see Figure 10).

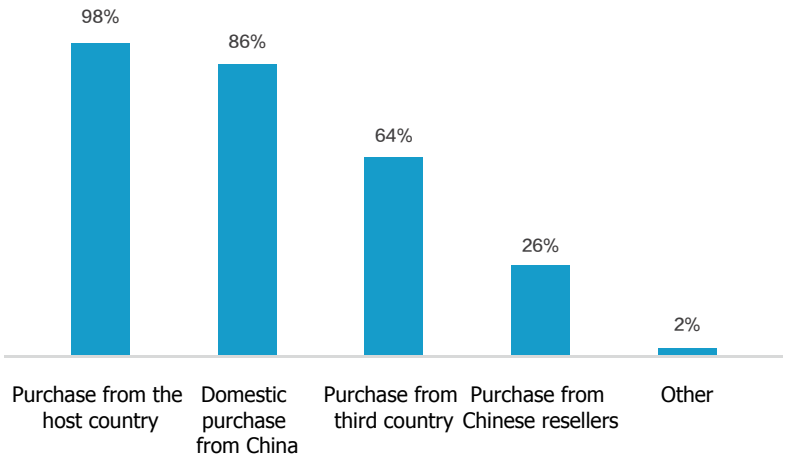


Figure 9: Channels of COCZs and tenant enterprises to purchase raw materials and services (multiple-answer question)

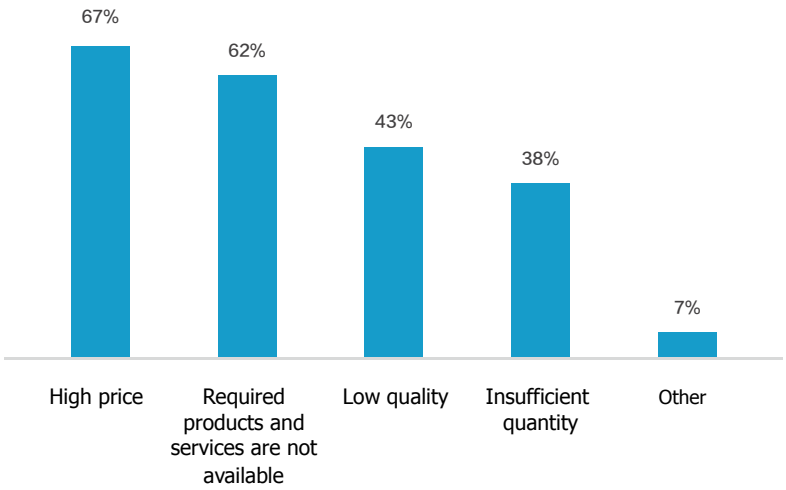


Figure 10: Obstacles for purchasing local products and services (multiple-answer question)

Case Study 1

The Malaysia–China Kuantan Industrial Park engaged local companies in the construction of the Park (including consulting services, design and construction), with a total output value of around RM 60 billion and a total tax revenue of around RM 6 billion, which effectively promoted local economic development.

Investment promotion centre of the Malaysia–China Kuantan Industrial Park

Established under a science collaboration project between China and Belgium, the China-Belgium Technology Center is the first technology cooperation zone co-developed by China and a European country. The zone was designed by BAEV, a local architectural design company and constructed by FRANKI, one of the largest local construction contractors. Localised procurement has stimulated local economic growth, improved local employment and has been widely recognized by the local government and community.

Innovation Centre of the China-Belgium Technology Center

2.2. Guidelines for Sustainable COCZs: Economic Sustainability

The successful development and operation of any COCZ is a massive undertaking that requires a long-term commitment and coordinated efforts of both the zone operator and relevant host country partners as well as significant amount of financial resources. The economic success of a COCZ and its companies is therefore dependent on the initial selection of the host country and site, its development plan, income sources, and linkages with the local economy among others. The following is a high-level checklist of key aspects, which are elaborated in detail in the following sub-chapters. Each sub-chapter includes practical examples from COCZs and other SEZs to illustrate how these aspects contribute to economic sustainability as well as to the achievement of the SDGs in the respective host countries.

High-level checklist:

- [ ] **Political commitment, policies and institutions**
- [ ] **Priority sectors**
- [ ] **Investment incentives**
- [ ] **Site selection**
- [ ] **Business models**
- [ ] **Incremental development plan**
- [ ] **Diverse income sources**
- [ ] **Anchor investors**
- [ ] **Local linkages**

2.2.1. Political commitment, policies and institutions

The successful development and operation of any COCZ requires a long-term stable investment environment, a comprehensive legal basis, and strong institutional arrangements that are able to ensure that political commitment and legal provisions are realised at the zone level. It is important to ensure support from the various national and local authorities that is required for the development and operation of a COCZ, including relevant Ministries, utility service providers, customs and immigration authorities, training institutions, and universities among others. It is also important for providing confidence to international investors.

Case Study 2

Cambodia provides a positive example for the establishment of a multi-level management system. The Council for the Development of Cambodia (CDC) serves as the top decision-making body and inter-ministerial coordination institution of the government for private and public-sector investment. Chaired by the Prime Minister, the SEZ Trouble Shooting Committee of the CDC is an effective tool for solving issues as they emerge. As well, the Cambodian SEZ Board (CSEZB) of the CDC takes charge of investment projects in SEZs. It reviews investment applications and grants incentives to investors. Each SEZ has an administration office on-site, which serves as a one-stop-shop service mechanism to simplify customs procedures, and facilitate trade and other operational challenges. The Cambodian government has carefully selected international partners with rich SEZ construction and

operation experience as zone developers, who have brought mature operating models and efficient management to the countries' SEZs. One of these examples is the COCZ in Sihanoukville, which is the largest SEZ in Cambodia. Upon completion, the COCZ will host around 300 companies and create 80,000 to 100,000 jobs. The zone is expected to become an exemplary model for other eco-industrial parks.

Aerial view of Sihanoukville Special Economic Zone

Factory in Sihanoukville Special Economic Zone

SDG 16 (Peace, justice and strong institutions): Supporting host countries to put such a system in place directly contributes to achieving SDG 16, as the inter-ministerial coordination institution and one-stop-shop administrative services effectively simplify bureaucratic procedures and reduce the space for corruption. In particular, the establishment of such a system responds to the SDG target 16.6, which aims at "developing effective, accountable and transparent institutions at all levels".

2.2.2. Priority sectors

Host countries will often identify priority sectors during the design of the development strategies of cooperation parks or SEZs based on their economic structure, comparative advantage and demands from international and domestic markets in order to create a good business environment and attract foreign investors.

For example, to promote the development of the textile sector, it is advisable to establish incentive measures, local supply chains, and supporting training and research centres.

Case Study 3

Ethiopia's development is guided by the Growth and Transformation Plan (GTP I: 2010/11-2014/15 and GTP II: 2015/16-2019/20). The Growth and Transformation Plan II defines industrial parks as one of the means of industrialisation with a focus on the following large and medium-sized manufacturing industries: textiles and clothing, leather and leather products, sugar, cement, metals engineering, chemicals, pharmaceutical and agricultural processing products.
The Ethiopian Oriental Industrial Park Private Limited is the main body of the development of the Eastern Industrial Zone, the first COCZ established in Ethiopia. It is registered in the state of Oromia, Ethiopia and wholly-owned by Jiangsu Yongyuan Investment Co., Ltd., who is fully responsible for the investment, development, construction, management and operation of the zone. By the end of January 2018, the zone hosted 83 enterprises with a total investment volume of USD 492 million, contributed to USD 69 million of tax revenue and had created 14,000 local jobs. Most of the tenant companies were attracted by Ethiopia's comparative advantage, including adequate leather resources and cheap labour, tariff-free access to European and American markets, and other policy incentives.

Workshop in the Ethiopia Oriental Industrial Park

SDG 8 (Decent work and economic growth): Overseas trade and economic cooperation zones usually focus on labour-intensive and high value-added industries, directly contributing to the achievement of SDG 8.2, with the aim of increasing economic productivity by focusing on these industries.

2.2.3. Investment incentives

Fiscal incentives and tax holidays are the most common measures taken by the host government for economic parks and cooperation zones to attract foreign direct investment. Import tax credits, income tax reductions, VAT exemptions, and preferential land use policies are also common forms of fiscal incentives. However, fiscal incentives and tax exemptions will cause the government to lose some of its tax sources in the short-term and may also have an impact on the economy and even lead to unfair competition among enterprises inside and outside the zones. Tenant companies that rely heavily on financial incentives may even leave when incentives are reduced or cancelled.

In order to mitigate the negative impact of fiscal incentives and tax holidays, some measures can be strategically encouraged, including combining non-financial incentives or soft incentives with fiscal incentives. Non-financial incentives or soft incentives include human resource training programs, simplified import and export procedures, preferential visa policies, specialised administrative services, and escalating infrastructure.

SDG 8 (Decent work and economic growth): The strategic use of incentives and tax holidays in the COCZs will not only maintain short-term viability but also sustain long-term prosperity. A long-term prosperous COCZ can contribute significantly to the achievement of SDG target 8.1 to sustain economic growth, and target 8.5 is to ensure that "all men and women achieve full and productive employment and decent work".

2.2.4. Site selection

Appropriate site selection ensures the availability of land, labour, related facilities and connectivity to national and international transportation routes. Good spatial planning enables the COCZ to make maximum use of external existing resources, reduces its own infrastructure investment, minimises resettlement and avoids geographic limits for future zone expansion or slum formation in the neighbourhood. For factories in COCZs, the production costs are lower due to the availability of specialised resources, such as industrial support, skilled labour, and infrastructure. An appropriate site selection requires clear and objective criteria and a comprehensive feasibility study.

In many cases, COCZs contain areas for industrial, commercial and residential purposes. In Indonesia, the Ministry of Land and Spatial Planning makes sure that surrounding areas of proposed SEZs have a reasonable amount of population, sufficient food supply and accessibility to infrastructure. Domestic SEZs usually have a mix of industrial, commercial and residential land blocks. Another example comes from Bangladesh, where, based on the SEZ development practices in the past, Bagum, Rashed and Rasel proposed six significant factors for SEZ location selection. Each factor was further divided into several sub-factors (Bagum, Rashed and Rasel 2013). These factors are:

- **Land:** variability of land; setup cost; ease of acquisition[5];
- **Transportation:** viable routes such as roads, railways, water, air; distance from ports, nearby cities and capital; transportation costs;
- **Labour:** availability and skill; employment rate; wage rate; labour force competitors;
- **Facilities:** viability and costs of energy e.g. gas, electricity; telecommunication costs; water availability; waste disposal facilities; proximity to raw materials; ease of expansion;
- **Fund availability:** interest of local entrepreneurs; interest of foreign investors; interest of non-resident Bangladeshis;
- **Quality of life:** defined as a "sense of well-being, fulfilment, or satisfaction" resulting from factors such as the natural environment and accessibility to commercial services.

SDG 9 (Industry, innovation and infrastructure): By ensuring scientific site selection, the construction of a COCZ can help to develop "quality, reliable, sustainable and resilient infrastructure" as identified in SDG target 9.1. In most cases, some infrastructure projects (e.g. road and power) constructed by COCZs serve not only factories in the zone, but also the surrounding communities and nearby cities. The government usually builds complementary public infrastructure to facilitate the development of COCZs. These facilities are accessible for local residents as well. In addition, SEZs are a powerful engine of industrialisation. Creating a COCZ in the right place can "promote inclusive and sustainable industrialisation" of the area and therefore directly contribute to achieving SDG target 9.2.

2.2.5. Business models

There are diverse models to develop and operate SEZs around the world. According to the motives of the developers and the political and economic context of the country, the SEZs can be divided into three different types: government-backed, business-driven and public-private partnership (PPP), each with different focuses.

2.2.5.1. Government-backed SEZ

The primary task of government-backed SEZs is to drive the development of new industrial clusters, economic growth points, and new cities. They are usually owned and operated by government agencies or state-owned firms. Generally, governments invest heavily in building new large-scale infrastructure and facilities. Therefore, it is crucial to secure sufficient funding in the constructing phase of the zone. A feasible business model gives the zone long-term viability and ensures that investments can be recycled. The funds for building government-backed zones mainly come from public budgets. For countries with insufficient fiscal revenue, seeking assistance from international financial organisations and international partners are feasible.

[5]An effective way to ensure land availability is to avoid setting up an SEZ in densely populated and economically developed areas, where the cost of resettlement will be enormous.

Case Study 4

In the case of the Bole Lemi Industrial Park, the government of Ethiopia had invested USD 113 million in the zone by 2015 and secured a USD 250 million grant from the World Bank for the zone's expansion (UNDP 2015).

The experience of some government-backed zones in China, Ethiopia and Egypt (e.g. Suzhou Industrial Park, Hawassa Industrial Park, TEDA Suez Zone) shows that the government's previous construction investment can be recovered through the growth of tax revenue and the appreciation of land values. From 1994 to 2016, the public revenue of the Suzhou Industrial Park rose from RMB 21.5 million to RMB 28.82 billion[6]. In most cases, the land value of the zone is likely to appreciate four times. The first appreciation can be achieved by basic development of the land. The second appreciation can be achieved through providing services and basic properties. The third appreciation depends on supporting public facilities, commerce facilities, warehousing, logistics, recreational facilities, etc. The last appreciation is based on real estate (Ma and Song 2016).

SDG 9 (Industry, innovation and infrastructure): The government-backed zones with sufficient funding and a feasible business model contribute directly to the achievement of SDG target 9.1 on "developing quality, reliable, sustainable and resilient infrastructure". Experience shows, for example with the development of the Shenzhen SEZ, that a successful government-backed SEZ can drive infrastructure upgrading throughout the region, providing affordable and accessible facilities to residents.

2.2.5.2. Business-driven COCZs

As business-driven zones are generally developed and operated by private investors, a stable and lasting business environment can boost private investors' confidence and encourage them to invest and operate continually. The host government needs to pay attention to maintaining policy consistency and protecting the property rights of the zone investors through specific laws.

Case Study 5

Amata Corporation Public Company Ltd. is a Thailand-based company that specialises in planning, developing, managing, and marketing integrated industrial estates. The profit strategy of Amata is based on land sales and operation of the zone, including the provision of utility services. The majority of profits derive from sales of land and factory buildings.

[6]Major economic indicators of the Suzhou Industrial Park 1994-2016. See: http://www.sipac.gov.cn/government/tjfx/201703/P020170320341751401534.pdf.

The Thai-Chinese Rayong Industrial Park is a modern industrial zone for global investors developed by China Huali Group and Thailand Amata Group in Thailand. The park is located on the eastern coast of Thailand, close to the Thai capital of Bangkok and the Laem Chabang deep-water port. The park is 114 km from downtown Bangkok and 36 km from Pattaya. It is 27 km from Laem Chabang deep-water port and 99 km from Suvarnabhumi International Airport. Thai-Chinese Rayong Industrial Park started development in 2005. After 12 years of construction and investment promotion, it currently hosts more than 100 companies from China.

Chinese-owned Enterprises Activity Centre in the Thai-Chinese Rayong Industrial Park

SDG 8 (Decent work and economic growth): By creating stable and lasting business environments for business-driven zones, governments and decision-makers significantly contribute to SDG target 8.2 that calls for "policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation".

2.2.5.3. Public-private partnership COCZs

PPPs take advantage of the efficiency of private capital to provide public services. COCZs can be either the platform for the implementation of a PPP project or the product of a PPP project. A successful and well-balanced PPP project requires a well-designed agreement. The guiding principles of such an agreement should be to keep public resources input at a relatively low level given that public resources are generally limited, while leveraging sufficient interest from private investors.

Case Study 6

The Shajiao B power station in the Shenzhen SEZ was the first PPP project in China. In 1984, the Shenzhen SEZ administration signed a build-operate-transfer agreement with Hong Kong Hopewell Power for the power station. According to the agreement, the Shenzhen SEZ provided only land, construction materials, labour and RMB 250 million for the 700 MV power station. The private investors were responsible for providing advanced technology, management and HKD 4.5 billion. Once the project was completed, the private investor had 10 years of operation rights and all profit during the operation period. The power station started construction in 1986, began generating electricity in 1987, and was transferred to the government in 1999. The project is regarded as a successful case of a PPP project in an SEZ for the following reasons:

- Input of public resources in this project was very low;
- The SEZ obtained a stable power supply and advanced technology in its early stage and the profitability for the private investor was high;
- The power station became government-owned in 1999 as scheduled with 20 years of life left.

SDG 17 (Partnerships for the goals): PPP COCZs and PPP projects in COCZs can make considerable contributions to SDG target 17.7 on promoting "the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries".

2.2.6. Incremental development plan

Controlling the starting scale of the zone helps to avoid large-scale resettlement and immense construction investment upfront. A speedy and cost-efficient start of the zone leads to a healthy evolution. Since the development of a COCZ is a comprehensive project, it needs sufficient time and extensive coordination to adapt to the local economy and society. Therefore, it may be easier for COCZs to begin with the development of a relatively small area of land, for example 100 to 300 ha, and a modest amount of investment[7]. The increase of investors and workers in the surrounding area will gradually transform the area and merge with the broader regional development. Incremental development is more likely to succeed than monumental projects.

[7]This is consistent with the success of the Long Jiang Industrial Park, the Phnom Penh Special Economic Zone and the Bole Lemi Industrial Park. However, the issue of land supply needs attention, as the surrounding land prices may increase due to the development of a zone. One of the common solutions is to reserve space in advance and divide the reserved land in different development phases.

Case Study 7

The Long Jiang Industrial Park in Vietnam is a typical case for the incremental development of a COCZ. The industrial park is located along the Ho Chi Minh-Trung Luong highway with a distance of 50 km to the Saigon seaport and 35 km to the Bourbon port. Within a range of 20 km around the park, there are two medium-voltage (22KV) substations to meet the electricity demand of the park in its initial stage. With a complete external infrastructure, the park has effectively controlled its own construction costs. Facilities and tenants are gathered within a starting zone of 183 ha. The developer has successfully promoted the rapid development of the park with a moderate capital input. By 2018, 40 enterprises already located in the park. The zone developer managed to turn profitable and recover his investment within several years. The developer consequently has invested further to expand the zone to 540 ha and build up residential and commercial facilities.

SDG 12 (Responsible consumption and production): Small-scale COCZs increase the efficiency of land use. A COCZ with incremental development can build infrastructure according to actual needs, so as to avoid waste of resources caused by irrational large-scale developments. Land is a precious natural resource, a small-scale COCZ with an intensive land use pattern helps largely to achieve SDG target 12.2, which calls for "sustainable management, and efficient use of natural resources".

2.2.7. Diverse income sources

Own industrial operations as well as rent of land and factory buildings are the most common sources of income for COCZs. However, due to the huge upfront investment and limited allocated land of COCZs, it is important to diversify income sources.

Case Study 8

The China-Egypt Suez Economic and Trade Cooperation Zone in Egypt, one of the first COCZs, has a clear strategy and rich experience in diversifying sources of income. In the beginning stage, most of the zone's income depended on land sales, land and plant rental, and construction projects for tenants. In the developing stage, with the agglomeration of enterprises in the zone, the developer relied on commercial real estate such as hotels, restaurants and convention centres for new sources of profit. Education, medical care, logistics and other services are important income sources as well. In the mature stage, intelligence output (e.g. SEZ design) created new cash flow for the zone. The financial industry and capital operations are also options for creating new income[8].

[8]The zone is planning to provide COCZ design and optimisation services to other COCZ operators and is already providing loans and investments to other zones. See: http://www.jwbos.com/2017/22/13/0329170425717199.html.

SDGs 9 (Industry, innovation and infrastructure): Diversifying income sources is an effective method to maintain the long-term prosperity of COCZs, which can support achieving the SDG target 9.5 to "enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, particularly developing countries".

2.2.8. Anchor investors

Incentive structures within COCZs often result in favouring quantity of investors over quality. However, given that the capacity and resources of COCZs are limited, it is advisable to rather focus on choosing suitable anchor investors in line with pre-identified priority sectors for the zone. These anchor investors play an important signalling role to other potential investors and often bring with them a network of suppliers and partners, which lays a solid foundation for the long-term healthy development of the COCZ.

SDG 8 (Decent work and economic growth): Attracting an anchor investor in a COCZ can largely contribute to SDG target 8.2 on ensuring "higher levels of economic productivity through diversification, technological upgrading and innovation" given that such investors usually bring about higher labour productivity and stronger technical ability to promote innovation.

2.2.9. Local linkages

Local linkages are key for value chain integration between the companies within and outside a COCZ. Policy and fiscal incentives are common measures taken by host governments for COCZs to attract FDI and promote exports. However, there is a risk for COCZs to become enclaves, without linkages with the local economy, relying heavily on local fiscal incentives. Such enclave-style zones have a very limited role in driving the country's industrialization and are likely to cause unfair competition.

The successful transfer of technology and knowhow within COCZs in China has largely happened through joint ventures between foreign and local companies. Local companies are usually already embedded in the local economy and can therefore function as an ideal link to the local economy. Attracting local established companies to COCZs can foster important linkages between the zones and the local economy as local companies can bring their established supply chains and workers to the zones.

Case Study 9

The Kunshan Economic and Technological Development Zone (KETD) in China used to organise discussions for domestic enterprises and foreign investors in the zone to promote cooperation. The Kunshan local government even set up special supplier districts to support the KETD, and the KETD held yearly forums for domestic suppliers, giving awards to the best performers and promoting the exchange of experience among firms.

SDG 8 (Decent work and economic growth): Actions by COCZs to promote spillover to and linkages with local businesses can significantly contribute to SDG target 8.1 that aims to achieve "at least 7 per cent gross domestic product growth per annum in the least developed countries". Spillover and linkage are effective paths to improve the capacity and ability of local business who are major players in the national economy.

3. Environmental Sustainability: Status and Experiences of COCZs and Guidelines for Sustainable COCZs

Co-building green COCZs along the Belt and Road needs to be one of the basic principles to be considered during investment and trade cooperation between China and partner countries under the Belt and Road Initiative. Most COCZs are already dedicating substantial efforts and resources towards environmental sustainability by putting in place environmental management systems and ensuring compliance with local environmental laws and standards. However, there is also further room for improvement in many zones. This chapter showcases COCZs' efforts towards environmental sustainability and offers practical guidelines for zone developers and operators to further increase the zones' environmental sustainability.

3.1. Environmental sustainability: Status and experiences of COCZs

• The importance of the establishment of environmental management systems

Based on responses received to the global survey of COCZs, 93% of the zones have conducted a comprehensive Environmental and Social Impact Assessment (ESIA) prior to the zone development and zone companies are required to conduct one as part of their approval to join the zone. Most of the COCZs have fully complied with requirements and recommendations for improvement deriving from the ESIA or are in the process of addressing such recommendations. In those cases where an ESIA has not yet been completed it is due to the early stage of planning that the respective zones are currently in. In 82% of the 42 surveyed COCZs, the ESIA was carried out by a third-party agency and in about half of those cases the third-party agency was selected by the host country. The strong commitment of COCZs to environmental matters is underlined by the fact that 86% of the surveyed zones have a full-time professional or team in charge of environmental aspects. 20% of the responding COCZs have obtained third-party certification for environmental management standards. With regard to measures taken by the COCZ to ensure environmental protection, the vast majority highlighted conducting regular inspection of the zone companies, having established an environmental management system in line with international standards

or requirements of the host country, and having in place wastewater and solid waste treatment facilities (see Figure 11 below)[9].

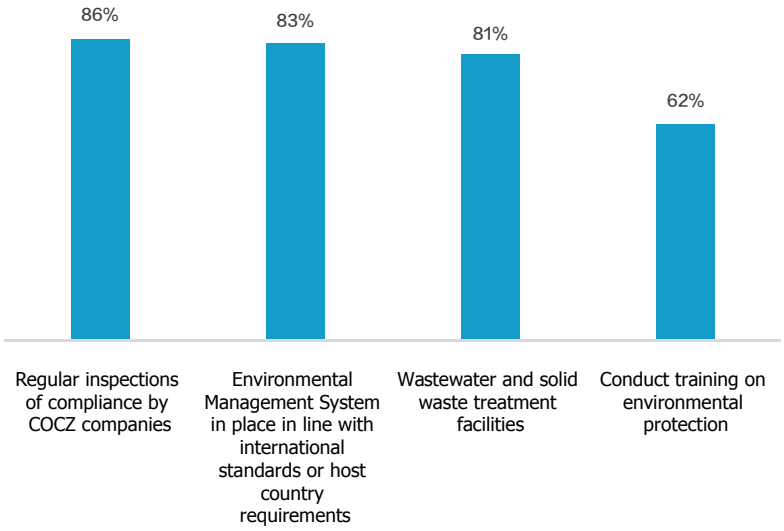


Figure 11: Measures taken by COCZs for environmental protection (multiple-answer question)

Case Study 10

The Laos Vientiane Saysettha Development Zone has adopted strict investment screening procedures that include detailed inquiries about project information, in-depth research on project backgrounds and the examination of feasibility reports to prevent and control industrial pollution. For the enterprises that pass the initial screening, in collaboration with professional environmental assessment agencies, the zone conducts professional environmental impact assessments and excludes investment that would have a detrimental effect on the environment. After the enterprises enter the zone, they are required to formally provide the official ESIA report from the Lao Environmental Assessment Department before starting operations. According to the type of project, there are four levels of Lao governmental entities that exercise supervision of business practices, namely the Ministry of Environmental Protection, the Environmental Protection Departments, the Management Committees and the Environmental Protection Bureaus. The tenant industries in the zone are subject to monthly supervision by the management committee.

[9]The ISO 14000 family of standards provides practical tools for companies to manage their environmental responsibilities, including through environmental systems and specific approaches such as audits, communications, labelling and life cycle analysis, as well as environmental challenges such as climate change. In 2016 there were more than 300,000 entities certified to ISO 14001 in 171 countries around the world. See: https://www.iso.org/iso-14001-environmental-management.html.

- **Attention to biodiversity protection and the application of environmental technologies**

In addition to possible environmental pollution problems, COCZs also focus on the protection of local biodiversity. Among 42 respondents, 69% indicated that the protection of biodiversity is an important reason for their location. 92% have taken measures to mitigate the negative impacts of construction and production activities on biodiversity.

Among 42 respondents, 39% are already using energy from renewable sources for their operations, and 59% claimed that buildings in the zone are green buildings[10].

Case Study 11

The TEDA Suez Economic and Trade Cooperation Zone has installed wind- and solar-powered hybrid street lamps along the main roads of an area of 2 square kilometres, becoming the first large-scale cooperation zone in Egypt that uses new energy street lamps. When trying to attract tenants and investment, the zone also prefers to work with eco-friendly companies. In addition, the zone is currently working on localised commercial applications of sea water desalination and desert greening, promoting low-carbon sustainable development in the host country.

3.2. Guidelines for sustainable COCZs: Environmental sustainability

The development and operation of COCZs have a high potential for negative impacts on the environment. Actively addressing environmental issues not only protects the environment and avoids external environmental costs for the local community and the economy as a whole, but also creates tangible benefits for COCZ developers, operators, companies and workers. Most notably, these benefits include:

- Cost savings through increasing resource efficiency;
- Stronger international competitiveness through better corporate image;
- Reduced business risks through increased resource security and better stakeholder relationships;
- Access to additional resources, such as climate finance;
- Higher value of real estate within the zone due to a more liveable environment.

To showcase the above benefits and as such make a "business case" for environmental sustainability, each of the below listed areas includes a practical example from a COCZ or another COCZ. In addition, concrete linkages to the achievements of the SDGs are highlighted.

[10]According to Green Building Evaluation Standard launched by the Ministry of Housing and Urban-Rural Development of China in 2018, green building refers to a high-performance structure that maximises resource efficiency, protects the environment, reduces pollution and provides healthy, applicable and efficient environment throughout a building's life-cycle. Available from: http://www.mohurd.gov.cn/zqyj/201809/W020180921031305.pdf

High-level checklist:

- [ ] **Environmental policy, strategy and management system**
- [ ] **Energy efficiency**
- [ ] **Renewable energy**
- [ ] **Water management**
- [ ] **Waste management**
- [ ] **Low-emission and climate-resilient operations**
- [ ] **Biodiversity protection and restoration**

3.2.1. Environmental policy, strategy and management system

A coherent and consistent approach to ensuring environmental sustainability of the development and operation of a COCZ requires its own environmental policy and strategy. The environmental policy should be an integral part of the COCZ Master Plan as environmental aspects are most effectively and efficiently addressed from the outset. The environmental policy needs to be accompanied by a respective strategy or action plan that spells out specific targets and actions to minimise, manage, measure and monitor impacts on the environment over a certain period of time. Ideally, the policy and strategy are developed in a way that facilitates the establishment of an environmental management system that is compliant with the internationally recognised ISO 14000 standards. Key requirements for meeting these standards are adherence to local and national environmental policies and an environmental policy and environmental management system that fosters continued performance improvements.

An environmental management system is a tool used to manage the impact of a company's activities on the environment. It provides a structured approach to planning and implementing environment protection measures. Ideally, COCZs should put in place an environmental management system that is compliant with ISO 1400[11] and provide support for their companies to follow suit. ISO 14001:2015 is the latest and most commonly used international standard for such systems, which is increasingly becoming a requirement for entering global supply chains.

In terms of reporting achievements made through the environmental management system, COCZ operators should consider using the Global Reporting Initiative's Sustainability Reporting Standard[12].These are the most widely adopted standards for corporate reporting on environmental, social and economic areas and will significantly contribute to a positive international corporate image of any COCZ through transparency on undertaken efforts.

[11]See: https://www.iso.org/standard/60857.html.

[12]See: https://www.globalreporting.org/standards.

Case Study 12

Environmental sustainability has become a prerequisite in the international business community. In particular, investors and customers from developed countries are increasingly considering compliance with international environmental standards as an important requirement for their supply chains. Having such standards in place can therefore significantly increase the international competitiveness of COCZs and enhance the access to export markets for COCZ companies by fulfilling international buyers' requirements. Having in place an environmental policy, strategy and management system further leads to a number of benefits for COCZ developers, operators, companies and workers as outlined for each thematic area in the following sub-sections.

The Dube TradePort SEZ (DTP) has developed its environmental policy in accordance with ISO 14001 requirements so as to ensure an efficient ISO certification process. DTP considers adherence to international standards, such as ISO 14001 important for achieving its vision of being the leading global manufacturing and logistics platform in Southern Africa.

SDG 12 (Responsible consumption and production): The environmental policy, strategy and management system of a COCZ or COCZ company supports the achievement of a number of SDGs as described for each thematic area in the following sub-sections. However, one cross-cutting aspect that in particular an environmental management system facilitates is the adoption of sustainability practices and the integration of sustainability information into corporate reporting. This directly contributes to achieving SDG 12 on ensuring sustainable consumption and production patterns by contributing to SDG indicator 12.6.1, which includes the "number of companies publishing sustainability reports".

3.2.2. Energy efficiency measures

COCZ are places of high energy consumption due to the needs for lighting, heating and cooling of the zone facilities, the transportation of workers and goods, and, especially, due to the high amount of electricity required by COCZ companies for powering their production processes. Taking measures to improve the energy-efficiency of COCZ operations can significantly reduce energy consumption. Ideally, the COCZ will establish an energy management system in line with the internationally recognized standard ISO 50001:2011[13].

[13]The International Standard ISO 50001 (Energy Management Systems: Requirements with guidance for use) enables companies to establish the systems and processes necessary to improve energy performance, including energy efficiency, use and consumption.

Case Study 13

Energy efficiency makes good business sense as it entails cost savings, strengthens energy security and reduces exposure to energy price rises and fluctuations. Furthermore, it often leads to process optimisation that comes with other resource savings, including labour resources.

South Africa's Dube TradePort SEZ is applying green building standards to its administrative buildings, which contribute to the energy efficiency of the buildings through design and construction. This has for example reduced energy consumption for cooling through the use of shading techniques and roof vegetation. The COCZ operator has also applied green building standards to underline the COCZ's commitment to sustainability and to set a concrete precedent for COCZ companies to follow suit.

Aerial view of Sihanoukville Special Economic Zone

Identifying profitable energy efficiency measures and putting them into action can come at zero or low cost for a COCZ or COCZ company. International organisations, such as United Nations Industrial Development Organisation[14] are promoting the establishment of energy management systems and the use of ISO 50001 free of charge. In particular, the National Cleaner Production Centres[15] available in 56 developing countries across the globe, provide assessments and recommendations to companies free of charge with options for improvements ranging from no cost solutions (e.g. behavioural change issues) to investments for process and technological upgrading.

[14]See: https://www.unido.org.

[15]See: https://www.unido.org/sites/default/files/2015-05/UNIDO_NCPCs_0.pdf.

SDG 7 (Affordable and clean energy): Actions on improving energy-efficiency in COCZs contribute to achieving the SDG target 7.3 on doubling the global rate of improvement in energy efficiency by 2030 under SDG 7 on ensuring access to affordable, reliable, sustainable and modern energy for all.

3.2.3. Renewable energy use

The choice of energy sources has a major impact on the environmental footprint of a COCZ. If fossil fuel-based energy is commonly used, the COCZ contributes directly (GHG emissions, air pollution from burning of fossil fuels) and indirectly (sourcing, transportation and processing of fossil fuels) to environmental degradation. COCZs should therefore strive towards fulfilling their energy needs from clean and ideally, renewable, sources. COCZs are well situated to generate their own energy from renewable energy sources, for example, from solar photovoltaic panels or waste heat recovery. Roofs of production facilities in COCZs offer an ideal space for the installation of solar panels, in particular if the roofs are designed in a way that allows for the panels to be installed at an ideal angle to, and orientated towards, the sun. Furthermore, many industrial processes produce a significant amount of heat that goes unused. Therefore, waste heat recovery can be another suitable source for COCZs to reduce their external energy demand.

Case Study 14

Another inspiring example for COCZs on how to integrate environmental sustainability from the outset of the zone development is South Africa's Dube TradePort SEZ which has designed the roofs of production facilities in the zone to provide ideal conditions for the installation of solar PV panels. The first company within the zone to make use of this option is RETRACTALIN[16], a South African company with a strong commitment to resource-efficient and clean production. The company has over three decades of experience in the design, manufacturing and supply of high-quality solutions for laundry care, such as retractable clotheslines, wall mounted folding dryers, and ironing boards. For this SEZ company the installation of a solar PV rooftop power plant at a total investment of about USD 1.2 million has a clear business case. According to RETRACTALINE's CEO, using electricity from renewable sources for the production process will greatly improve the company's chances to secure business contracts from large international clients, such as IKEA, given that such global companies use scorecards for evaluating potential suppliers and environmental compliance has become a key component of this evaluation. The installation of its own solar PV rooftop power plant will improve the environmental sustainability of the company's operations by lowering its GHG emissions[17]. Furthermore, the installation makes good business sense as it will reduce energy costs and make the company less vulnerable to ongoing increases in local electricity prices.

[16]See: http://www.retractaline.com/about-us.

[17]South Africa's national energy mix is predominantly reliant on energy generation from coal and oil.

SDG 7 (Affordable and clean energy): The generation of energy in COCZs from renewable sources contributes directly to the achievement of SDG target 7.2 on increasing the share of renewable energy in the global energy mix by 2030.

3.2.4. Water management

Many developing countries are experiencing increasing water stress, which is likely to intensify as a result of climate change and population growth in the coming years. Secure access to water is a key requirement for the successful operation of COCZs, in particular for zones focusing on the agricultural, leather, paper and garment and textile industries. Water security can be significantly improved by ensuring the efficient use of water, reusing water, recycling wastewater and harvesting rainwater.

Case Study 15

The garment and textile industry use various dyes and chemicals to treat textiles and is therefore a high water-consuming and water-polluting industry. Ethiopia's Hawassa Industrial Park, which brands itself as the "1st Sustainable Textile & Apparel Park in Africa" has invested USD 33 million in a state-of-the-art zero-liquid discharge facility (ZLDF) to ensure that the wastewater from the industrial processes in the zone is recycled and reused as much as possible (currently over 90%). For the government of Ethiopia, which owns and operates the park, such a large investment made business sense for mainly three reasons:

- It satisfied the requirements of the anchor investor in the zone;
- It contributes to the international competitiveness of the zone by not only fulfilling international standards, but showing leadership in resource conservation and environmental protection; and
- It is financed through fees that park companies paid based on the amount of wastewater they produce.

Hawassa Industrial Park Zero-Liquid-Discharge Facility

SDG 6 (Clean water and sanitation): By putting in place effective water management, COCZs can directly contribute to SDG target 6.4 on substantially increasing water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity". COCZ water management could easily report on the two indicators set for SDG target 6.4., namely "change of water-use efficiency over time" (SDG 6.4.1) and "level of water stress: freshwater withdrawal as a proportion of available freshwater resources" (SDG 6.4.2).

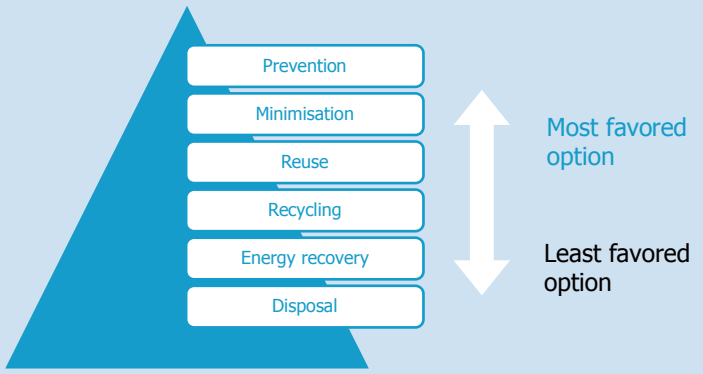
3.2.5. Waste management

Waste management is another important area through which COCZs can significantly reduce their environmental impact. Waste management should be guided by waste prevention, waste reduction, reuse and recycling of materials, and the proper disposal of remaining waste. As the majority of a COCZ's waste will be generated by COCZ companies, the COCZ operator should ensure that waste management responsibilities are part of any tenant agreement. Furthermore, the COCZ operator should foster industrial symbiosis by facilitating the use of unused or residual resources of one company for use by another company, thereby diverting waste from landfills and reducing costs for companies.

Case Study 16

South Africa's Dube TradePort SEZ can also serve as a useful reference for COCZ waste management. The SEZ is guided by a waste management hierarchy that aims at preventing and reducing waste in the first place before identifying ways to reuse resources, including waste energy, and to recycle resources. The remaining waste is then properly disposed of. The SEZ has a waste management plan in place that is mandatory for all SEZ companies, which includes a waste separation and recycling programme.

One of the zone's companies, RETRACTALINE, is gaining economic benefits from the SEZ's mandatory recycling programme. Before the company moved into the SEZ it had to pay for the disposal of all its waste. Now it receives payments for the materials that can be recycled and pays less for the disposal of the remaining waste, which translates into a net cost reduction of about USD 16,000 per year.



Waste management hierarchy of the Dube TradePort SEZ

SDG 12 (Responsible consumption and production): COCZs can make an important contribution to achieving SDG 12 on ensuring sustainable consumption and production patterns. Waste management of COCZs can substantially reduce waste generation through prevention, reduction, recycling and reuse by 2030 (SDG target 12.5), help achieve the environmentally sound management of chemicals and all waste throughout their life cycle (SDG target 12.4) and contribute to the sustainable management and efficient use of natural resources by 2030 (SDG target 12.2).

3.2.6. Low-emission and climate-resilient operations

Many companies have understood that taking action on climate change and its adverse impacts is not only in the interest of the planet, but also in the interest of maximising profits by improving operations and making them more resilient. In addition, such actions help companies to get ahead of the curve as environmental regulations are tightening around the world following the adoption of the Paris Agreement[18] within the United Nations Framework Convention on Climate Change.

While GHG emissions from COCZs primarily derive directly or indirectly from their energy use, there is also a considerable emission reduction potential in certain industrial processes and in the use of refrigerants. The production of certain goods from raw materials, such as cement, steel and plastics, require chemical reactions that lead to the emission of GHGs. Some of these emissions can be avoided through the choice of raw materials and through the use of technologically advanced machines and processes. COCZ operators can raise awareness among respective COCZ companies and facilitate access to such raw materials, machines and processes. Furthermore, COCZ developers and operators can consider the installation of cooling systems, such as air-conditioners and refrigeration systems, that use natural refrigerants[19], which have a low global

[18]See: https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement.

[19]See for example: http://www.refrigerantsnaturally.com/natural-refrigerants.

warming potential and typically also offer gains in energy efficiency. COCZ operators can also ensure that the zone is resilient to adverse effects of climate change, such as extreme weather events, droughts and sea-level rise.

Case Study 17

An example for ensuring the climate resilience of a zone comes from the South African government's Dube TradePort SEZ. Here the zone operator formed a Climate Resilience Committee and developed a Climate-Resilience Strategy in line with the local government's adaptation plan, following the identification of climate change as one the key strategic operational risk to the zone. The strategy lays out actions for water management, infrastructure protection, coastal zone management and disaster management that significantly increase the resilience of the zone to adverse effects of climate change that are already being felt within the region.

SDGs 3 (Good health and well-being) and SDG 13 (Climate action): While the low-emission climate resilient operation of COCZs is closely linked to issues of energy, water and waste management and the respective SDGs discussed above, it also directly contributes to SDG target 3.9 on substantially reducing the number of deaths and illnesses from air pollution by 2030 and SDG targets 13.1. on strengthening resilience and adaptive capacity to climate-related hazards and natural disasters and 13.3 on improving education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.

3.2.7. Biodiversity protection and restoration

The development of COCZs, in particular if it is a greenfield development, has a huge potential for negatively impacting biodiversity. The COCZ site selection therefore needs to strongly factor in ecosystem losses, in particular as regards to environmentally significant areas such as wetlands. Wetlands are a significant resource in terms of the ecological goods and services they provide, including flood attenuation, habitat provision for floral and faunal species, pollution and soil erosion control and carbon sequestration. If it is unavoidable to develop a COCZ in such areas, rehabilitation and restoration aspects need to be an integral part of the COCZ Master Plan with the goal of a zero-net-loss of biodiversity.

The quantification of the economic value associated with ecosystem services is an increasingly common approach for mainstreaming biodiversity conservation into corporate decision-making.

Some international companies, such as the sports brand PUMA[20], are already including ecosystem services in their annual financial reporting by preparing Environmental Profit and Loss Financial Statements along with traditional Financial Statements. This trend needs to be taken into account by COCZs that aim to attract large international companies and their suppliers.

Case Study 18

A good example for COCZs on how to integrate biodiversity protection and restoration into zone development and operation comes from Ethiopia's Hawassa Industrial Park. The park went through a comprehensive environmental impact assessment prior to its construction to understand the implications of the SEZ development on the local ecosystem and biodiversity. Following the assessment, biodiversity restoration provisions were integrated in the SEZ's Master Plan from the outset and carried out during its construction. The creation of green spaces throughout the SEZ was also motivated by making housing within the SEZ more attractive.

Hawassa Industrial Park housing facilities

Protecting and restoring biodiversity within the park increases its attractiveness by providing recreational value and a more liveable environment to its workers and visitors. This is of particular relevance for COCZs that include housing or hotels as the value of such real estate is in part determined by the liveability of its environment.

SDG 15 (Life on land): Actions by COCZs to protect and restore biodiversity make a direct contribution to SDG target 15.5 which calls for urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity, and protect and prevent the extinction of threatened species by 2020.

[20]See: http://about.puma.com/en/sustainability/environment/environmental-profit-and-loss-account.

4. Social Sustainability: Status and Experiences of COCZs and Guidelines for Sustainable COCZs

The Belt and Road Initiative aims to build people-to-people ties in order to create win-win situations. By elevating social standards, COCZs not only improve the overall performance of the zones themselves, but also create good social interactions within and outside the zone, helping to attract employees and avoid conflicts with local communities. With regard to social aspects, some COCZs are exemplary by ensuring compliance of the zone's companies with labour laws and safety standards as well as through training and mediation to foster cross-cultural understanding between international management and local employees. However, there are also many zones that appear to limit their approach in this area to corporate social responsibility activities. While financial contributions to social community projects are commendable and should be continued, this remains only one aspect of social sustainability. This chapter provides an overview of efforts undertaken by COCZs developers and managers in this context and practical guidelines for ensuring comprehensive social sustainability going forward.

4.1. Social sustainability: Status and experiences of COCZs

• Emphasis on local employees

88% of respondents to the global survey of COCZs states that they mostly hire local employees and that the relationship to local workers and their communities is of great importance to them.

Case Study 19

The China-Russia Tomsk Timber Industry and Trade Cooperation Zone adopts a localised development strategy, employing qualified local personnel at various levels of the company. At present, the zone has provided more than 2,200 jobs and nearly 2,000 positions for local employees, which has greatly improved local employment and built a group of local technical and managerial talents.

In the process of internationalisation, the China-Indonesia Julong Agricultural Industry Cooperation Zone employs people of different nationalities and cultural backgrounds and provides staff with comprehensive training programs, which ensures the supply of a high-quality workforce and has laid a solid foundation for their international business development. The management positions are occupied by both Chinese nationals, overseas Chinese and non-Chinese personnel, which adds multicultural perspectives into decision-making processes.

Emphasising the hiring of local employees, in all construction projects in the Hualing

Tbilisi Sea New City and the Hualing Free Industrial Zone, 70% of the staff were local workers. At present, among the more than 2,000 personnel hired for construction and business operations, around 1,400 are Georgian. During construction, the zone spread advanced engineering and construction technologies to Georgia and trained around 100 Georgian engineering and construction personnel, making a significant contribution to the improvement of the construction capacity of Georgia.

• Emphasis on the human resource management standards of COCZ tenants

A number of zones indicated that they are employing local talents for managerial positions. More than 90% of responding zones said that they require their companies to ensure that labour contracts, wages and other benefits are provided to employees in line with host country regulations. Furthermore, 88% of the COCZs require their companies to provide social and health insurance for local employees and ensure safety at work. Most of COCZs explicitly require their companies to provide overtime payments (79%) and career development opportunities (67%) for local employees (see Figure 12 below).

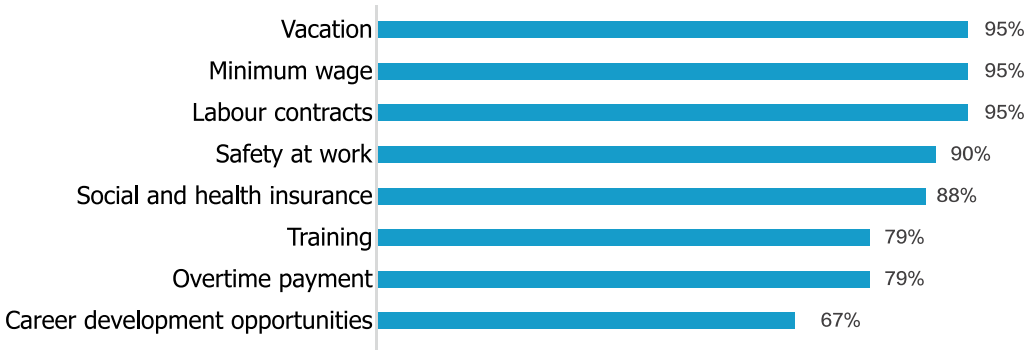


Figure 12:COCZs tenants' requirements (multiple-answer question)

Most of the COCZs consider training for local employees very important as it can help improve cross-cultural understanding, safeguard labour rights, establish harmonious labour relations, and improve the welfare, safety and compensation systems of local employees. At the same time, such training opportunities help local employees understand the corporate culture of Chinese and other foreign companies.

• Interaction with the local community through various approaches

In order to establish good relations with the local community and promote joint development, COCZs interact with local communities in various ways. 93% of the 42 parks have strengthened their ties with the community through the employment of local employees, 79% have donated funds to local community development projects, 71% communicated with local communities on

major issues in the construction process, and 43% have actively connected with residents and enterprises in the local community to become suppliers of products and services to enterprises in the zone (see Figure 13 below).

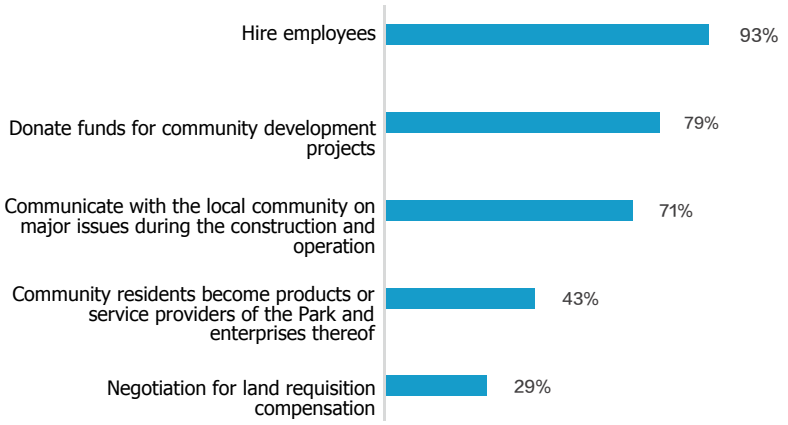


Figure 13: Forms of interactions between COCZs and the local community (multiple-answer question)

Case Study 20

The China-Russia Tomsk Timber Industry and Trade Cooperation Zone signed a corporate social responsibility agreement with the local government, according to which the zone would donate to public welfare funds in Asinovsky, Teguldetsky and Bakcharsky to promote the general welfare on a yearly basis. The donation has been used to construct the Asino Cultural Palace, the stadium and other recreational and sports areas. In addition, with the support of the local government, the donation also sponsored the Tomsk sports competition and children's sports activities, cultural events such as the "Axe Festival" and "Snooker World Championships", which has been recognised and appreciated by the local community. Local official television stations and press media have repeatedly come to the zone for news interviews and thematic reporting and have spoken highly of the development of the cooperation zone and its contribution to the local area.

In order to provide basic education for the children of employees and so workers can work in the cooperation zone with fewer concerns, the Cambodia Xiuyu Industrial Park provides free education in Cambodian for children of workers in the zone and residents of surrounding communities, which not only cements ties with the local staff, but also boosts cohesion of the zone, and enhances China's image in Cambodia. Moreover, the zone has made donations to the local Red Cross in Cambodia from time to time, contributing to the development of Cambodia. In addition, the zone, together with the local government, has built roads improving connectivity in the local community. Up to now, the zone has invested over 10 million yuan in local general welfare and has achieved good social benefits.

• Labour relations face multiple challenges

Despite the efforts of the tenant enterprises in the zones, more than half of respondent COCZs indicated that due to language, management methods and cultural differences, conflicts between Chinese and local employees are identified as the most common labour problem (see Figure 14 below). Most COCZs are taking various actions to help solve these and other labour-related problems (see Figure 15 below).

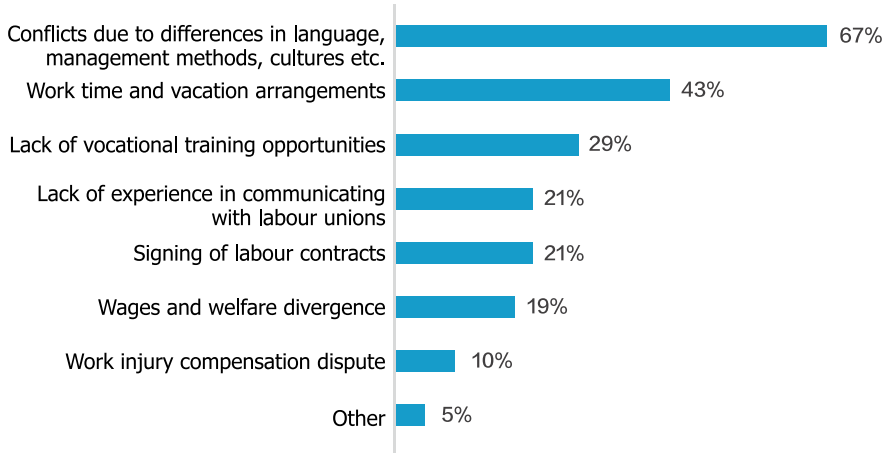


Figure 14: Main labour issues encountered by tenant enterprises of COCZs (multiple-answer question)

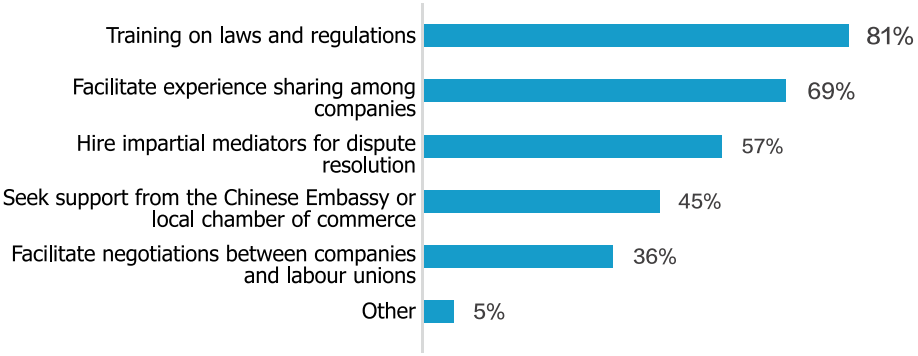


Figure 15: Measures taken by COCZs to solve labour-related problems (multiple-answer question)

Case Study 21

The China-Indonesia Julong Agricultural Industry Cooperation Zone established a department that is in charge of liaising with the local community and that provides insights for zone companies on national and local religious beliefs and the customs of the different ethnic groups that their workers belong to. This has led to ensuring that each plantation has mosques and churches and that work schedules and division of labour are established according to prayer times and religious holidays.

4.2. Guidelines for sustainable COCZs: Social sustainability

Promotion of adequate social standards can lead to an improved overall performance of SEZs and COCZs alike. A well-functioning social interaction system within and outside the zone helps to attract and retain employees and to avoid friction with the local community.

High-level checklist:

- [ ] **Resettlement plan**
- [ ] **Labour standards**
- [ ] **Housing for workers**
- [ ] **Safety and health at work**
- [ ] **Security**
- [ ] **Transparent wage structure and incentive systems**
- [ ] **Social infrastructure**
- [ ] **Skills training and human resource management**
- [ ] **Community engagement**

4.2.1. Resettlement plan

In the process of identifying a suitable location for a COCZ, all efforts should be undertaken by the developer to avoid resettlement and other negative social impacts for the local community. However, as COCZ development usually takes up considerable amounts of land, resettlement is often unavoidable. Hence, a detailed and well-structured resettlement plan should be created from the beginning that involves all affected persons and institutions and creates trust and transparency. Failing to have such a type of resettlement plan can lead to project delays and rising costs as well as to social tensions, putting the entire project at risk. A resettlement plan should identify all persons affected by the project, establish a clear cut-off date to allow for adequate calculation of compensation and to avoid settlement of new persons in the development area after a decision has been taken. A well-thought-out resettlement plan further highlights how the detailed measurement of assets to be compensated will be undertaken and defines the cost for developer as well as for persons to be resettled based on the calculation of relocation and entitlement costs (IFC 2012a, IFC 2012b). If a resettlement plan is developed in consultation with the community, it will considerably contribute to the success and sustainability of the COCZ.

In fact, since the local communities near the COCZs are most likely to be the first employees of the zone, a good resettlement plan must include provisions to support the employment of local community members.

SDG 11 (Sustainable cities and communities): A well-thought-out and structured resettlement plan contributes directly to SDG target 11.3 on enhancing "inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management".

4.2.2. Labour standards

In ensuring labour rights and promoting safe and secure working environments for workers, particularly for female workers, COCZs can become important accelerators for the achievement of a number of SDGs. In creating jobs with high labour standards, COCZs can further help combine decent work with economic growth within the country in which they operate. In the past, SEZs and invested companies have often been associated with a lack of adequate labour standards and other social challenges affecting workers and the surrounding communities (ILO 2005). Therefore, COCZs should follow national labour laws, and where national laws are not sufficient, internationally accepted standards and best practices should be used as a benchmark to establish sustainable working practices in the zone[21].Furthermore, COCZs should have a code of conduct and a feedback system in place that helps address work-related grievances[22] effectively, allowing workers to avoid exposure to unfair work practices and any workplace related harassment. COCZs should also have regulations on working hours in place that allow for sufficient recreational time for workers. The arrangement on working hours should ideally be included in the contract of the worker to avoid misunderstandings, including for short-term assignments. It is mandatory that zone invested companies are complying with pre-agreed working hour regulations, and where necessary, they should implement shift systems to avoid overtime working. Adequate labour standards also entail that there is no gender-related discrimination in the workplace, allowing men and woman to work freely.

[21]Internationally accepted standards can be found among others in the ILO Declaration on Fundamental Principles and Rights at Work; United Nations Guiding Principles for Business and Human Rights; International Covenant on Economic, Social and Cultural Rights.

[22]Work related grievances are often connected to terms and conditions of employment, health and safety, bullying and harassment, working environment, new working procedures or on equal opportunities.

Case Study 22

Garment and textile companies invested in Ethiopia's Hawassa Industrial Park (HIP) are very interested in establishing internationally accepted labour standards. Therefore, together with the park operator they closely monitor the working conditions and labour standards in their factories. For example, workers in the textile factories work in a shift system and are provided food and transportation services after the end of their shifts. In case there is a violation of working hours or labour standards, there is the ability to raise and discuss the problem within the tenants' association meeting that takes place once every month. While Ethiopia does not have a legal minimum wage, HIP companies are aiming to offer attractive wages, including through incentive systems, so as to retain their trained workforce.

Ensuring adequate labour standards within COCZs will help COCZ-invested companies to better integrate into international supply chains and attract high value brands. At the same time, they will save training costs by retaining workers over a longer period and contribute to a positive relationship with the local community and host country.

SDG 8 (Decent work and economic growth): Adequate labour standards in COCZs will support the achievement of SDG 8, in particular to "achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value" (SDG target 8.5) and to "protect labour rights and promote safe and secure working environments of all workers, including migrant workers, particularly women migrants, and those in precarious employment" (SDG target 8.8).

4.2.3. Housing for workers

Availability of adequate housing for workers is essential for COCZs to function properly. Oftentimes, zones are constructed away from city centres, making commuting and accommodation a tremendous challenge many zone workers face. This results in higher transaction cost for workers, making working in the zone less attractive. Therefore, from the onset of the implementation of the COCZ project, zone operators should consider the provision of adequate housing for workers.

Case Study 23

For the Hawassa Industrial Park in Ethiopia from the start, one pressing issue had been the insufficient supply of housing in Hawassa city for the zone workers. To alleviate the housing shortage, the zone operator working closely with a local microfinance institution created a special fund to provide low-interest loans to local home owners to construct additional houses in their compound to accommodate zone workers. Through this unique collaboration 600 additional houses were built within one year of the establishment of the park, allowing zone workers to find affordable place to stay, while generating income for the local community. The rental prices are fixed below market rates to avoid misuse and to reduce the cost burden for the workers. Up to four workers share one house with a monthly rent at around 1000 Birr (USD 36), resulting in a rent per worker of ca. 250 birr (USD 9) (Hawassa Industrial Park Interview).

Provision of adequate housing for workers provides a motivated workforce that produces high-quality products, helping to raise the production efficiency and allow the company to compete and earn more income on the global market. The developer can highlight its sustainability vis-à-vis companies that want to invest in the zone in the future. As such the example from Ethiopia's Hawassa Industrial Park can serve as a good example for COCZs as regards to contributing to social sustainability through the provision of housing for workers.

SDG 11 (Sustainable cities and communities): Provision of adequate housing for workers supports the achievement of SDG 11, in particular through the creation of access for all to adequate, safe and affordable housing and basic services (SDG target 11.1).

4.2.4. Safety and health at work

Zone operators should strive to introduce safety and health measures to protect workers, to allow smooth operations and to support the community at large. In this regard, working closely with zone invested companies allows the identification of internationally accepted technical standards to solve health and safety issues in the zone that are beneficial to zone management, invested companies and workers. Due to increased market demand, particularly private companies have developed an interest in providing goods that have been produced under sustainable and ethical working conditions. The availability of a medical centre and firefighting squad is essential for the functioning of the zone. Investment in this infrastructure should not be done only by the zone operator alone and is best addressed in collaboration among the zone operator, government authorities and invested companies.

Case Study 24

In terms of safety and health at work, the Ethiopian Hawassa Industrial Park can also serve as useful example for COCZs. The park operator, in collaboration with invested companies, hired a private company, Arup, to assess and review the health and safety situation within the industrial park. Arup undertook a full review of the structural, fire and electrical safety standards in the industrial park and provided suggestions for implementation to the zone operator and invested companies. Today, the safety and health standards implemented ensure that the entire industrial park is built using the best international safety standards allowing for a safe working environment[23]. According to the zone operator, this has been one particular item that has resulted from the regular interaction between invested companies and zone management. For many of the zone invested textile and garment companies, an internationally accepted working environment is a core demand to avoid any reputational risk.

Providing a safe and healthy environment helps enterprises to save costs. In particular, a safe and healthy working environment helps the workforce to be less sick and to be more productive. It can also help reduce the turnover rate of workers, increasing the learning curve and continuity in production.

SDG 3 (Good health and well-being) and SDG 9 (Industry, innovation and infrastructure): Providing a safe and healthy working environment helps to reach SDG 9, in particular the development of quality, reliable, sustainable and resilient infrastructure to support economic development and human well-being (SDG target 9.1). Furthermore, it helps upgrade infrastructure to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes (SDG target 9.4). It also contributes towards SDG 3 as it helps to substantially reduce the number of deaths and illnesses from hazardous chemicals (SDG target 3.9).

4.2.5. Security

To ensure sustainability of the zone operations, adequate security measurement should be put in place to protect operations inside the zone as well as workers who live outside the zone. Especially in cities in developing countries that are growing very fast due to demand for workers, security issues may become a problem as city authorities may not be ready to cope with the changing dynamics within the city. While security of the zone can be easily ensured, for example through entrance controls at the zone gate, it is more challenging to establish security for workers that are leaving the zone late in the evening. Solutions could be offered through dedicated transportation

[23]The assessment was done in three categories: (1) Structural design has been reviewed against applicable Eurocodes and corresponding British Standards. (2) The Electrical Safety assessment has been mainly done in compliance with IEC 60364-Electrical Installation of Buildings. (3) Fire Safety Assessment has been done in compliance with National Fire Protection Association standards.

of workers from the zone to a pre-agreed drop-off point or through increasing security patrols along the main roads leading towards the areas where workers live. To increase the safety of the workers, internal grievance mechanisms should be installed where workers can report any workplace related safety issues.

Case Study 25

At the aforementioned Hawassa Industrial Park in Ethiopia, security of late shift female workers leaving the park late in the evening had become a growing problem for the zone operator as well as for city authorities and invested companies. The main issue has been due to inadequate transportation services late in the evening. This has led to a growing problem for female workers walking back home late in the evening, affecting their personal security and performance at work. To alleviate the problem, the zone operator, invested companies and city authorities established a transportation system and additional security patrol in the city.

In providing a secure working area, the COCZ increases the reputation of the zone as a good working environment as well as helps the city become recognised for its safety measures. The zone operator can use good security to attract more companies and workers to the city, helping increase the income of the city through collected taxes.

SDG 16 (Peace, justice and strong institutions): Provision of basic security around the zone helps achieve SDG 16, especially in helping to increase the proportion of the workers that feel safe walking alone around the area they live (SDG indicator 16.1.1).

4.2.6. Transparent wage structure and incentive systems

Wage structures have often been an area of contestation within COCZs. It is evident that there is no "one size fits all" approach to determine the level of adequate payment as it mostly depends on the particular local context and the sectors operating in the COCZs. Therefore, sustainable COCZs should always follow minimum wage standards applicable in the country in which they operate and provide a transparent wage structure for their workers. In addition, sustainable COCZs should be used as incubators to introduce adequate work-related incentive systems to increase wages for workers.

Case Study 26

Many of the workers in the aforementioned Hawassa Industrial Park (HIP) were in the informal sector or without any work before they entered the workforce in the park. Compared to their earlier earnings, the salary paid within the zone is higher. However, the salary is not large enough to help them sustain their living expenses, resulting in high turnover. In many cases, the salary has been one of the main reasons for quitting SEZ-based work (Addis Fortune 2018). This problem has been recognised by park management and invested companies alike as it is creating instability in the number of workers and production processes.

To bring in more transparency, the wage structure in different areas of the work process has been made transparent and accessible to all workers. As well, HIP invested companies have introduced an incentive system for exceptional workers that can range from phone minute top-ups to additional payment on top of their basic salary. The incentive system has motivated some workers to increase their efficiency and earn more money, while other workers have not shown any interest in participating in the incentive system. The zone operator is not involved in negotiating of salaries; however, it has a regulatory function and monitors zone-invested companies to ensure that workers received the set minimum payment. In cases where companies are not complying, the zone operator, through its delegated authority from the Ministry of Labour and Social Affairs (MOLSA), has enforcement mechanisms in place.

Providing a transparent wage structure for workers and an incentive system to earn more income through good and productive work has a direct benefit for companies invested in the zone. It can help reduce fluctuation of workers due to low salaries and high cost of living. If workers receive incomes that can allow them to have a decent life, they will appreciate it and stay with the company for a longer time contributing to the knowledge and productivity of the company.

SDG 10 (Reduced inequalities): Provision of a transparent wage structure and incentive system helps to reach SDG 10. In particular it contributes to the achievement of income growth of the bottom 40% of the population to progressively achieve greater equality (SDG target 10.1).

4.2.7. Social infrastructure

The establishment of an adequate social infrastructure through COCZs, such as recreational places, medical facilities, dormitories, restaurants and cafeterias, banks and postal services can help increase the success rate of such zones in attracting high-performing companies. Provision of free transportation can also increase the appeal of the zone for companies and workers alike. Establishing this social infrastructure is connected to additional upfront costs for the zone

developer. However, having this infrastructure in place provides a long-term advantage through creating a diversified income stream for the developer.

Case Study 27

The China-Egypt TEDA Suez Economic and Trade Cooperation Zone, located within the Suez Canal SEZ in Egypt, has identified many advantages in establishing social infrastructure in the zone. It has helped the zone developer to diversify its income streams and at the same time provide additional services to local communities. It has established housing projects offering modern and affordable apartments for rent and purchase to both zone employees and people not working in the zone. Further, the zone developer has established a four-star hotel within the zone to attract Egyptian families when visiting the Red Sea resort city Ain Sokhna. Along with attracting families to visit the hotel, the zone operator has also established an amusement park for children within the zone, creating a family-centred recreational space. The long-term plan of the zone operator is to establish TEDA Suez Economic and Trade Cooperation Zone not only as an industrial zone but also as a social interaction space for Egyptians through the different social interaction possibilities it has on offer (China-Egypt TEDA Suez Economic and Trade Cooperation Zone Interview).

The Pengsheng Industrial Park, located in the Syr Darya State of the Republic of Uzbekistan, was invested in and built by Jinsheng Trading Co., Ltd. from Wenzhou, China. By the end of 2017, the zone had a workforce of around 1,500 people. To fulfill their corporate social responsibility obligations, the zone founded the Pengsheng Charity Foundation and has made donations of around USD 3 million. Moreover, the zone participated in a housing improvement program administered by the Uzbek government and provided new housing grants, down payments and preferential loans to high-performing employees, improving the living standards of employees. In addition, the zone built an ecological park in the Syr Darya State at the end of 2017, providing a place for recreation and entertainment for its staff and neighboring communities. The ecological park is also equipped with community service centres, fire stations, police centres, banks, supermarkets, restaurants, libraries and other facilities.

Ancillary facilities of Pengsheng Industrial Park

Cooperation zones with adequate infrastructure are more likely to win policy support from the local government. In this regard, through setting up partnerships with relevant governmental agencies, the zone can increase revenue sources as well as promote the sustainable development of the host cities.

SDG 11 (Sustainable cities and communities): Provision of adequate social infrastructure contributes to fulfilling SDG 11 by creating access to safe and affordable housing and basic services (SDG target 11.1). It also helps to enhance inclusive and sustainable urbanisation (SDG target 11.3).

4.2.8. Skills training and human resource management

Ensuring a steady supply of trained workers that can fulfill the requirements of the zone-invested companies is a critical component to make the COCZ economically viable and sustainable at the same time. Especially in areas where new zones have been developed, due to infrastructure that is still under development, the proper identifying and training of workers plays an important role. Oftentimes, the identification of the right workforce and the constant turnover of workers due to work-related problems, i.e. low wages, long working hours and general unfamiliarity with factory work has been a constant problem for companies. In this regard, zone operators should provide assistance to zone-invested companies in solving labour-related issues, for example through the creation of dedicated human resource management services.

Case Study 28

In Ethiopia, worker turnover has particularly been a big problem. According to the Industrial Park Development Corporation (IPDC), in the second half of 2017, out of 15,000 employees that have been recruited so far, close to 4,470 workers have again left HIP (Addis Fortune 2018, Kellow 2018). As a reaction to this problem, the zone developer, in close cooperation with the City of Hawassa and the government of the Southern Nations, Nationalities and Peoples' Region created a dedicated human resources management system for park invested companies. The "Hawassa Industrial Park Sourcing, Training, Enrolment and Recruitment" (HIPSTER) programme has centralised all recruitment and training activities to help identify, select, screen, grade and train HIP employees[24]. This particular collaboration has been a result of regular exchange between the zone operator and invested companies in the tenants' association meetings that take place every month. According to the zone operator, establishing a dedicated human resource management service has alleviated one of the main concerns of invested companies: identifying the right type of worker from a pool

[24]The HIPSTER programme is a public-private partnership between the government of Ethiopia and Enterprise Partners, a social enterprise led by a consortium of international development consultancies and funded by the Department for International Development of the United Kingdom (DAI 2018).

of 5 million people within a 60km catchment area around the industrial park. The dedicated system has further created a tailored, on-the-job training program in tandem with third party entities, such as Enterprise Partners, the German development cooperation agency GIZ, the Ethiopian Textile Industry Development Institute (ETIDI) and the University of Hawassa, matching workers with the requirements of park invested companies. Oftentimes, new recruits come from rural places with low education levels and minimum or no formal work experience. Through the human resource management system workers have been identified, trained and introduced to invested companies. Workers have also received soft skills training, such as work ethics and teamwork, addressing work requirements within an industrial setting.

Provision of skills training, capacity development and human resource management helps create a pool of well-trained workers increasing the importance of the entire COCZ as a production centre. Easy access to a well-trained workforce helps companies invested in the COCZ to save substantial amounts of money that would otherwise go into the recruitment process of employees. Increasing collaboration with local learning institutions also supports spill-over effects into the local economy and helps create a knowledge cluster surrounding the COCZ.

SDG 4 (Quality education): Provision of skills training and capacity development helps to fulfil SDG 4, in particular to substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship (SDG target 4.4).

4.2.9. Community engagement

To ensure that operations of the zone are sustainable and in line with development plans of the surrounding community, an adequate community engagement plan is necessary. The zone management and zone-invested companies should work with communities around the zone, especially in areas where the interests of zone-invested companies and those of the community meet, such as land use rights, environmental issues, transportation, housing, etc. To avoid friction, there should be a regular and formalized exchange of information between zone management, zone-invested companies and community stakeholders, creating linkages between the needs of the community and the zone companies.

Case Study 29

To ensure the sustainability of the HIP, the operator as well as invested companies have introduced a monthly tenant association meeting that comprises the zone operator, federal and local government authorities and invested companies to discuss major operational

bottlenecks and social problems. Through these monthly meetings, the zone operator and invested companies ensure that workers and the community are informed about ongoing projects in the zone and receive feedback from the community and local authorities on pressing issues requiring the intervention of the zone operator or the companies.

A well-structured community engagement process can help the zone developer, invested companies, the government and the larger community to increase the level of satisfaction and trust surrounding the development of the COCZ. Community engagement further can help to explain decision-making processes, to get feedback from the local community allowing for better and more sustainable decisions overall, increasing the attractiveness of the zone and the city.

SDG 11 (Sustainable cities and communities): Provision of adequate community engagement structure fulfils SDG 11, in particular through enhancing inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management (SDG target 11.3) and it also contributes to the increase of cities with a direct participation structure of civil society in urban planning and management that operate regularly and democratically (SDG indicator 11.3.2).

5. Conclusions and Recommendations

5.1. Conclusions

COCZs along the Belt and Road have the potential to be much more than just engines of trade and economic growth in their host countries; they can also make major contributions to economic, environmental and social sustainability and through this to the achievement of the SDGs in their respective host countries as well. This is in line with the Belt and Road Initiative's vision to contribute to sustainable development in partner countries and with guidance from Chinese government agencies to COCZs and overseas companies to take a holistic and long-term business approach that protects the environment and delivers social benefits to local communities and countries as a whole. While many COCZs have achieved impressive progress toward these goals, there is still considerable room for improvement. Results of the global COCZ survey demonstrate that most of the zones achieve economic sustainability after a few years of operation by building on diverse income sources, but often mainly rely on profits that the zone operator gains through its own industrial activities within the zone. In addition, most of the zones report that they have a strong commitment to environmental sustainability, avoid the inclusion of polluting industries in the zone and have dedicated staff to ensure the environmental integrity of the zone and its companies. Furthermore, most zones report that they are committing considerable time and resources to ensuring that their companies comply with social standards and mitigating cross-cultural challenges between invested companies and the local workforce.

In the context of this report, practical guidelines for sustainable COCZs have been developed and are included in the respective chapters on economic, environmental and social sustainability. The guidelines aim to support COCZ developers, operators and companies to better understand the benefits of establishing, or turning their COCZ into a sustainable COCZ and the systematic process required to realise such zones from the planning to the development and operation stages. To encourage and facilitate this process, practical examples from COCZs and other SEZs have been included for each key aspect of economic, environmental and social sustainability. This is particularly the case for the environmental and social aspects. Resource efficiencies (energy, water and raw materials) and circular economy approaches as well as the reduction of greenhouse gas emissions from the production process and making COCZs resilient to the adverse impacts of climate change are areas that many zones do not seem to be actively engaged in. With regard to the social aspects, some COCZs are exemplary by ensuring compliance of the zone's companies with labour laws and safety standards as well as through training and mediation to foster cross-cultural understanding between international management and local employees. However, there are also many zones that appear to limit their approach in this area to corporate social responsibility activities, such as financial contributions to social community projects. Moving forward, broad benefits for the enterprises, local communities and the host country as a whole can only be achieved by putting in place more specific measures in COCZs to attain the sustainable development goals.

5.2. Recommendations

- **Establish demonstration centre for sustainable COCZ models:** The development of a model sustainable COCZ that demonstrates how to successfully integrate various aspects of economic, environmental and social sustainability could serve as concrete reference and inspiration for other zones to follow. This would be an important step toward realising the full Belt and Road Initiative vision of a community of shared benefits that contributes to the achievement of the 2030 Agenda for Sustainable Development. The development of such a zone should build on China's vast domestic experience with the design and operation of eco-industrial parks, low-carbon development zones and green zones. The inclusion of international environmental standards or internationally recognised good practices could further be supported through cooperation with United Nation agencies and other multilateral organisations that have expertise in those areas.

- **Create an experience and knowledge sharing mechanism for COCZs under the Belt and Road Initiative:** The report has shown that COCZs have a variety of experiences, insights and good practices on economic, environmental and social sustainability. COCZs that are less advanced could greatly benefit by learning from those that are more advanced in respective areas. Such experience and knowledge-sharing could be of particular importance for new COCZs to ensure that sustainability approaches are reflected in the zone design and operation from the outset. A dedicated mechanism would need to be established for this purpose that facilitates the regular exchange of information among COCZs across countries participating in the Belt and Road Initiative.

- **Identify new paths for COCZ financing:** Most of the COCZs highlighted financing as their biggest challenge. Therefore, new ways should be explored both by the COCZ operators and the Chinese financial institutions to overcome this challenge. COCZ operators could consider further diversifying their income streams through for example the development of residential or commercial areas as part of the zone. For financing of sustainable COCZs in developing countries, zone operators should consider triangular cooperation by engaging with development agencies or multilateral funds that aim to foster low-emission and climate-resilient development in the respective host countries. Furthermore, Chinese financial institutions that are guided by the Belt and Road Initiative's vision should recognise COCZ as important platforms for realizing the Initiative and increase their efforts in devising financing vehicles that can cater for the specific needs of COCZs.

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Annex: Questionnaire to COCZs

Questionnaire on the Sustainable Development of China's Overseas Economic Cooperation Zones

Requirements for Filling the Form

This questionnaire aims to learn the performance of sustainable development of China's overseas economic cooperation zones.

(1) This questionnaire covers all overseas cooperation zone under construction included in cooperation zones of the Ministry of Commerce.

(2) To ensure the validity and authenticity of the result, please answer all questions. Fill in "None" for indicators not available.

(3) Please fill in on "_____" and check the "□".

Confidentiality Claim

Please abide by requirements of the secrecy laws in filling the form.

Preparer and Contacts Information thereof (Optional):

Name: _____

Name of Enterprises under Construction
(Names of the Domestic Entity and Overseas Enterprise):

Title: _____

Location (Country/City): _____

E-mail: _____

Tel.: _____

Date of Filling: _____

Part I Basic Information (4 questions in total)

(1) Nature of the operation subject of the Park is:

□ State-owned enterprise
□ Private enterprise
□ Mixed ownership enterprise
□ Chinese-foreign joint venture
□ Other, please specify: _____

(2) Investment scale of the Park construction

□ USD 3 million to USD 15 million
□ USD 15 million to USD 50 million
□ USD 50 million to USD 100 million
□ USD 100 million to USD 500 million
□ USD 500 million to USD 1 billion
□ Over USD 1 billion

(3) Leading industry of the Park

□ Traditional manufacturing industry

** Labour-intensive industries that manufacture and process raw materials, such as textile and agriculture products processing, automobiles and their spare parts, construction materials, metal smelting and processing.*

□ Emerging manufacturing industry

** Industries with high technology and high added value, such as biomedicine, electronics and communication equipment, new materials and new energy products.*

□ Trade, e-commerce, wholesale and retail
□ Logistics and warehousing industry
□ Financial services and insurance industry
□ Research and development institutions
□ Other, please specify:

(4) Period of overseas operation of the Park:

□ Over 20 years □ 15 to 20 years □ 10 to 15 years
□ 5 to 10 years □ 3 to 5 years □ Below 3 years

Part II Economic Sustainability (12 questions in total)

(1) Profitability of the Park:

□ Substantially profitable
□ Basically profitable
□ Basically equal
□ Temporary loss

(2) Profit model of the Park (multiple choices)

□ Factory rent
□ Land premium

□ Self-operated industries in the Park
□ Professional consulting services
□ Other, please specify: ----------

(3) Mode of Management Committee of the Park:

□ Independently operated by the investment enterprise
□ Jointly operated with cooperative enterprise in the host country
□ Jointly operated with government departments of the host country
□ Other, please specify: ----------

(4) In your opinion, what is the host government's attitude towards the model of economic cooperation zone?

□ Very supportive and regard it as an important national policy for attracting foreign capital
□ Supportive and give preferential policy support
□ Not supportive or not aware

(5) Has the Park done a comprehensive pre-investment feasibility analysis to help identify relevant economic, social and environmental risks?

□ Yes
□ No

(6) In your opinion, what are the main factors for the Park to attract enterprise investment (multiple choices, sort by priority):

□ Preferential investment and tax policy
□ Relatively low cost for production raw materials
□ Relatively low cost for productive labour
□ Mature management and services
□ Convenient infrastructure conditions
□ Stimulation of upstream and downstream industrial clusters
□ Advantageous geographical position
□ International layout for avoiding potential business risks
□ Financing opportunities
□ Other, please specify: ----------

(7) Has the Park received financial supports from the following financial institutions

□ No
□ Yes, please check (multiple choices)
□ Policy banks of China, such as China Development Bank and the Export-Import Bank of China
□ Chinese commercial banks
□ Banks of the host country
□ Multilateral financial institutions, such as the World Bank, the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB) and the European Bank for Reconstruction and Development (EBRD)
□ Other, please specify: ----------

(8) What are main factors considered in the site selection of the Park (multiple choices, sort by priority):

□ Located in the important economic development zones planned by the host government
□ Relative low land price
□ Close to the production factors (such as raw materials and labour) required by the Park's major industries
□ Convenient transportation and relatively low logistics costs
□ Relatively mature supporting infrastructure (such as industrial water and electricity)
□ Generous investment policy and mature services of the local government
□ Stable political situation and security assurance
□ Strategic location with great potential for development
□ Requirements for enterprises settling in the Park
□ Other, please specify: _____

(9) Do the following supporting functional areas are included in the planning of the Park? If yes, please check.

□ One-stop service center
□ Basic public services such as medical care, education, bank and catering
□ Affordable staff dormitory
□ Office and conference room for Management Committee of the Park
□ Vocational training center
□ Other, please specify: _____

(10) What is/are the main market(s) for products (including service products such as construction services) produced by the Park in the host country? (multiple choices)

□ The host country
□ China
□ Third countries

(11) Channels of the Park and settled enterprises to purchase raw materials and services include (multiple choices)

□ Domestic purchases in China
□ Purchase from Chinese resellers
□ Purchase from the host country
□ Purchase from third countries
□ Other, please specify: _____

(12) In your opinion, what is the biggest obstacle for purchasing local products and services?

□ Required products and services are not available
□ Low quality
□ Insufficient quantity
□ High price
□ Other, please specify: _____

Part III Social Sustainability (8 questions in total)

(1) In your opinion, which of the following descriptions are in line with the actual situation of employment of enterprises in the Park? (multiple choices)

- □ Mainly local employees of the host country
- □ Mainly Chinese employees
- □ Mainly male employees
- □ Mainly female employees
- □ Mainly managerial personnel
- □ Mainly workers engaged in physical work

(2) The number of job opportunities that enterprises of the Park may provide for the local is about:

(3) Which of the following aspects belong to requirements of the Park for settled enterprises to protect the basic rights and interests of local employees? (multiple choices)

- □ Sign labour contracts in accordance with regulations of the host country
- □ Pay remuneration that no less than the minimum wage in accordance with regulations of the host country
- □ Pay overnight allowance in accordance with regulations of the host country
- □ Provide vacation
- □ Provide social and health insurance
- □ Provide safety shielding facility for special types of work
- □ Provide necessary vocational training
- □ Provide career development opportunities
- □ Other, please specify: _____

(4) Which of the following are the main labour issues encountered by enterprises of the Park? (multiple choices)

- □ Signing of labour contracts
- □ Wages and welfare divergence
- □ Lack of experience in communicating with labour unions
- □ Lack of vocational training opportunities
- □ Work time and vacation arrangements
- □ Work injury compensation dispute
- □ Conflicts between Chinese employees and local employees due to differences in language, management methods, cultures and customs
- □ Other, please specify: _____

(5) Measures taken by the Park to assist enterprises in solving labour-related problems include: (multiple choices)

- □ Regularly conduct training on relevant laws and regulations of the host country
- □ Assist to hire professional organizations to participate in dispute resolution
- □ Directly participate in the negotiations between enterprises and labour unions as the mediator

□ Organize enterprises of the Park to communicate and share relevant experiences
□ Seek help of Chinese economic and commercial counselor's office or chamber of commerce in the country of residence
□ Other, please specify: _____

(6) Forms of interactions between the Park and the local community mainly include:
□ Negotiation for land requisition compensation
□ Hire employees
□ Donate funds for community development projects
□ Communicate with the local community on major issues during the construction and operation
□ Community residents become products or service providers of the Park and enterprises thereof
□ Other, please specify: _____

(7) In your opinion, interactions between the Park and enterprises thereof and the local community are:
□ Very harmonious
□ Basically harmonious, need to be improved
□ Not very harmonious

(8) In your opinion, which of the following related parties may help enterprises improve community relationship:
□ Chinese embassy and chamber of commerce in the country of residence
□ Central and local governments of the host country
□ United Nations agencies in the country of residence
□ International and local non-governmental organizations
□ Community opinion leaders
□ Other, please specify: _____

Part IV Environmental Sustainability (13 questions in total)

(1) Has the building area and settled enterprises conducted an Environmental and Social Impact Assessment (ESIA) on overseas investment projects?
□ Yes, no suggestions for improvement have been made
□ Yes, relevant suggestions have been made but have not been implemented
□ Yes, relevant suggestions have been made and have been gradually implemented
□ Yes, and relevant suggestions have been made and fully implemented
□ No, the industry or the host country does not have relevant requirements for environmental impact assessment
□ No, the environmental impact assessment is required yet has not been conducted

(2) How was the environmental impact assessment of the building area and settled enterprises completed?
□ Completed by a third party agency designated by the host government

□ Completed by a third party agency hired
□ Completed by internal experts of enterprises
□ Other, please specify: _____

(3) Does the Park have full-time professionals or teams responsible for environmental management?

□ Yes
□ No

(4) What is the proportion of the Park's budget for environmental management to operating expenses (%)?

_____%

(5) Has the Park obtained any third-party certification for environmental management?

□ No
□ Yes, please list obtained certifications:

(6) Does the Park allow high-pollution and energy-intensive enterprises to settle in?

□ Yes
□ No

(7) Measures taken by the Park for environmental protection include (multiple choices)

□ Establish a sound environmental management system in accordance with international standards or requirements of the host government
□ Conduct inspections related to environmental protection to settled enterprises and urge them to improve
□ Conduct training of laws and regulations related to environmental protection
□ Establish thorough sewage, waste gas and solid waste treatment facilities
□ Designate specific area for settled high-pollution and energy-intensive enterprises and adopt corresponding mitigation and elimination measures
□ Give priority to the introduction and settlement of environmentally friendly enterprises
□ Other (please specify): _____

(8) Does the Park use renewable energy (such as solar energy and wind energy)

□ Yes
□ No

(9) Are buildings in the Park green buildings?

□ Yes
□ No

(10) To what extent does biodiversity protection affect the operational decisions (such as site selection and investment attraction) of the Park?

□ Very important

□ Important
□ Relatively important
□ Have a certain impact
□ Have no impact

(11) Does the Park have different mitigation measures for its impact on biodiversity?

□ Yes, avoid the occurrence of impact from the source
□ Yes, reduce time, intensity and/or degree of the impact
□ Yes, rebuild ecosystem that degraded or damaged from the impact
□ Yes, reduce residual and negative impacts
□ No – enterprises have not adopted any mitigation measures

(12) Is the Park subject to environmental impact complaints/penalties (such as fines and prohibit operation) in 2018?

□ Yes, please specify: _____
□ No

(13) Are such complaints/penalties disposed?

□ Yes
□ No, please indicate reasons: _____

Part V Contribution and Challenges (6 questions in total)

(1) In your opinion, which of the following aspects are the main contribution of the China's overseas economic cooperation parks to the host country (multiple choices)?

□ Promote economic development
□ Drive employment
□ Increase industrialization level
□ Improve infrastructure
□ Train technical talents
□ Strengthen economic and technical cooperation between China and the host country
□ Help the host country to earn foreign exchanges through exports
□ Introduce development mode and concept suitable for the host country to form a demonstration effect
□ Other, please specify: _____

(2) In your opinion, which of the following aspects are the main contribution of the China's overseas economic cooperation parks to the Chinese government or enterprises (multiple choices)?

□ Become an important carrier for China and the host country to conduct investment and capacity cooperation under the Belt and Road Initiative
□ Help Chinese enterprise to develop foreign investment and cooperation in a better, faster and more orderly manner
□ Facilitate Chinese enterprises to make concerted efforts and strive for more preferential investment policies from the host governments

□ Sustainable development of the Park is conducive to establishing China's role as a responsible investor

□ Other, please specify: ----------

(3) Major challenges faced by the Park during operation in the host country (multiple choices)

Main risks faced by enterprises in overseas operation ("1" for the lowest degree of challenge and "5" for the highest)	1	2	3	4	5
Political instability					
Labour-related problems					
Community-related problems					
Environment-related problems					
Safety of employees					
Corruption					
Local commodity price and inflation					
Difficulty in financing					
Single business model and difficulty in making profits					
Foreign exchange control					
Geopolitical influencel					
Other, please specifyl					

(4) How do you evaluate the relationship between the Park and settled enterprises and local stakeholders?

Types of stakeholders	Great	Bad	Good, but could be better
Central government of the host country			
Local government of the host country			
Chinese institutions in the country of residence (such as embassy and chamber of commerce)			
Non-governmental organizations (including those of the world, the host country and China)			
International development organizations			
Academic institutions and think tanks			
Business partners			
Financial institutions			
Local community			
Media			

(5) How long does the Park plan to continue its business activities in the country?

□ One to two years
□ Three to five years
□ Five to ten years
□ Ten to twenty years
□ More than twenty years

(6) What supports does the Park hope get from the Chinese government?

□ Funds
□ Foreign investment policy
□ Overseas personal and property protection
□ Conduct intergovernmental dialogues with the host government to help enterprises solve practical difficulties
□ Strengthen the service function of Chinese institutions functioning abroad
□ Other, please specify: ----------

Part VI Supplementary Materials

(1) Please list in detail the specific cases where the Park made contribution to education, medical care, health, environment and community construction of the host country.

(2) Please list in detail the specific cases where the Park resolved domestic advantageous production capacity and drove domestic industrial transformation and upgrading.

(3) Please list in detail problems, challenges and solutions encountered by the Park during operation in the host country.

(4) Please list your suggestions for the relevant domestic departments to promote overseas economic and trade cooperation zone.

Chinese Academy of International Trade and Economic Cooperation,
Ministry of Commerce of the People's Republic of China

United Nations Development Programme in China