

# FINAL REPORT

<b>Project title:</b>	“Fostering inclusive and sustainable industrial development in the New Silk Road Economic Belt (NSREB): Leveraging potentials of industrial parks, zones and cities in Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan”
<b>Duration:</b>	December 2015 – April 2018
<b>Purpose of Report:</b>	To provide an overview of the activities undertaken within the reporting period.
<b>Date of Report:</b>	October 2018
<b>Reporting Period:</b>	December 2015 – April 2018
<b>Prepared by:</b>	UNIDO

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## TABLE OF ABBREVIATIONS

ADB	Asian Development Bank
BCI	Business, Cluster and Innovation
BRI	Belt and Road Initiative
CAREC	Central Asia Regional Economic Cooperation
CICETE	China International Center for Economic Technical Exchanges
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
IFMR	Institute of Forecasting and Macroeconomic Research
IO	International Organization
ISID	Inclusive and Sustainable Industrial Development
ITPO	Investment and Technology Promotion Office
NGO	Non-governmental Organization
NSREB	New Silk Road Economic Belt
SDGs	Sustainable Development Goals
SEZ	Special Economic Zone
SMEs	Small and Medium-sized Enterprises
TC	Technical Cooperation
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization

## I. PROJECT SUMMARY

<b>Project title</b>	Fostering inclusive and sustainable industrial development (ISID) in the New Silk Road Economic Belt: <i>Leveraging potentials of industrial parks, zones and cities in Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan</i>
<b>Thematic area code</b>	Poverty Reduction through Productive Activities, Trade Capacity Building, Environment and Energy
<b>Starting date</b>	December 2015
<b>Duration</b>	29 months
<b>Project site</b>	Azerbaijan, Tajikistan, Turkmenistan, Uzbekistan, and China
<b>Main counterparts</b>	Ministry of Economic and Industry, Azerbaijan; Ministry of Industry and New Technologies, Tajikistan; Academy of Science of Turkmenistan; and Chamber of Commerce, Uzbekistan
<b>Other counterparts</b>	UNIDO ITPO Shanghai; China International Center for Economic Technical Exchanges (CICETE)
<b>Executing agency</b>	United Nations Industrial Development Organization (UNIDO); Asian Development Bank (ADB)/CAREC Institute (Urumqi, China)
<b>Budget TOTAL</b>	US\$ 500,000 (incl. psc)
<b>Donor</b>	Government of China

### Brief description:

The UNIDO project “Fostering inclusive and sustainable industrial development in the New Silk Road Economic Belt (NSREB): Leveraging potentials of industrial parks, zones and cities in Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan” was formulated in partnership with the Asian Development Bank (ADB) and in synergy with the parallel ADB-funded project on “Supporting Industrial Park Development in the Central Asia Regional Economic Cooperation Region.”

The overall partnership project supported deeper regional economic integration through corridor development (transport, logistics and industrial) approaches with envisaged positive effects on income and employment, industrial diversification and competitiveness, and reductions in poverty and regional disparities. During the project’s development, UNIDO worked closely with the ADB to align the objectives, outcomes, outputs and activities of each organization’s project.

The objective of the project was to contribute to inclusive and sustainable industrial development (ISID) in the New Silk Road Economic Belt (NSREB). The outcome of the project is better understanding of the role of a new generation of science, industrial and technology parks, zones and cities in their various forms for pursuing ISID in the NSREB.

Chinese President Xi Jinping proposed the NSREB during state visits in September 2013 to four central Asian countries. President Xi’s vision and concept of building inclusive regional economic cooperation on issues such as transport connectivity, trade facilitation, resource efficiency, energy and water security, and knowledge and technology sharing, leading ultimately to deeper regional economic integration, were echoed positively by the leaders of these countries. The Chinese Government has since incorporated the NSREB (as well as the Maritime Silk Road Initiative) into the Belt and Road

Initiative (BRI).

There are obvious synergies between the NSREB concept and the Central Asia Regional Economic Cooperation (CAREC) Program—an eleven-country regional integration and economic corridor development initiative covering the same countries as the NSREB, of which the ADB is a founding partner institution. Further, the partnership between UNIDO and ADB operationalizes the UNIDO ISID concept and particularly UNIDO's role as a global facilitator of knowledge sharing and advice on pursuing ISID, and building multi-stakeholder partnerships for leveraging resources for ISID.

To achieve its objective and outcomes, this partnership project facilitated the establishment of an NSREB industrial park knowledge sharing platform for government officials at national, local and city levels, and representatives from the private sector, academia, civil society, international organizations (IOs), and development finance institutions (DFIs). The platform facilitated mapping of regional needs, networking, and information and experience sharing on how to leverage static and dynamic advantages of science, industrial and technology parks, zones and cities and their positive synergetic effects with economic corridors for fostering ISID in the NSREB. The platform also stimulated multi-stakeholder dialogue on building partnerships to scale up investment in ISID.

The project produced background studies on the status of science, industrial and technology parks, zones and cities and investment opportunities in the target countries, which were discussed in depth at the regional meetings and workshops, and served as important inputs to the knowledge platform. A strategic and operational framework and action plan for follow-up activities in the region were also prepared.

UNIDO cooperated with the ADB team throughout the implementation of this partnership project in the respective countries. The ADB project focused on two countries from CAREC Corridor 2—Kazakhstan and Kyrgyzstan, and the UNIDO project concentrated on four pilot countries from CAREC Corridor 2—Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan. These four countries supported the project throughout and provided positive assessments of the project activities and outcomes, calling for an extension of this type of regional cooperation initiative.

A final conference of the project was held in Shanghai, China in April 2018. This conference marked the end of the first phase of the NSREB project and the presentation of its planned outputs—analysis on the status and potential of science, industrial and technology parks, zones and cities, and investment opportunities in the target countries. The conference presented the main findings of UNIDO's strategic framework for special economic zone (SEZ) and industrial park development as well as diagnostic studies for the four project countries. The conference brought together participants from government, SEZs, think-tanks, the private sector, and development partners, including IOs and DFIs, to discuss next steps and the formulation of concrete project proposals in the countries along the NSREB.

The country participants and park and zone experts called upon UNIDO to provide its assistance in coordinating and facilitating the exchange of best practice and knowledge to help governments better plan and design sustainable and inclusive parks and zones. From its side, UNIDO pledged to assist countries in industrial and technological upgrading and innovation, through the development of sustainable parks and zones, smart cities, clusters and parks using Industry 4.0 technologies. Looking ahead, UNIDO will work with the project countries to formulate concrete projects.

The project benefitted from the study tour in China organized in cooperation with UNIDO Investment and Technology Promotion Office (ITPO) Shanghai and the Jinqiao Development Management Committee, Shanghai.

## II. EXECUTIVE SUMMARY

### BACKGROUND

The project was conceptualized with the overall objective of contributing to inclusive and sustainable industrialization and deeper regional economic integration and cooperation among Central Asian countries. The long-term goal of the project is improved economic diversification, competitiveness, trade and economic growth in the New Silk Road Economic Belt. The project established a unique platform for cooperation and assistance on how to pursue ISID through leveraging potentials of science, industrial and technology parks, zones and cities, and multi-stakeholder partnerships.

This translates into the following two outputs, which were envisaged under this project:

**Output 1:** *NSREB industrial park knowledge sharing platform established.*

**Output 2:** *NSREB strategic and operational framework and action plan for business infrastructure development produced.*

The Project Document was signed by the Director General of the China International Center for Economic Technical Exchanges (CICETE) on 10 October 2015. The project is funded by the Government of China to the amount of USD 500,000 (including project support costs). Funds were allocated for the project in December 2015, and project implementation started in 2016.

The project counterparts were the Ministry of Economy and Industry, Azerbaijan; the Ministry of Industry and New Technologies, Tajikistan; the Academy of Science of Turkmenistan; and the Chamber of Commerce, Uzbekistan. Other counterparts included the UNIDO ITPO Shanghai, CICETE, and the Asian Development Bank (ADB)/CAREC Institute (Urumqi, China).

### SUMMARY OF KEY ACHIEVEMENTS

According to the two outputs, the key achievements of the project are as follows:

#### **Output 1: NSREB industrial park knowledge sharing platform established**

Under Output 1, the project succeeded in raising awareness of the potential of industrial and economic corridors to contribute to balanced, inclusive and sustainable economic development, and the crucial role of science, industrial and technology parks, zones and cities for industrial and economic corridor development. Around 400 experts, practitioners, policymakers and academics contributed to the Industrial Park Knowledge Platform.

#### **Output 2: NSREB strategic and operational framework and action plan for business infrastructure development produced**

The background studies, including on land zoning, country questionnaires and consultancy reports, were produced. The Strategic and Operational Framework was formulated, with gender and sector specific issues included.

- Four senior experts on industrial zones and parks and on land zoning assisted the project team in questionnaire formulation and provided inputs for preparing the Strategic and Operational Framework.
  - Peer review of the Strategic and Operational Framework by experts from the World Bank, Chinese industrial zones, and academics.
- Diagnostic studies for the four project participating countries produced.
  - Diagnostic and macroeconomic analysis and assessment of the status of industrial parks and zones, including gender and sector specific areas produced.
  - Action Plan for the Second Phase produced.
  - National needs and potential for UNIDO technical cooperation (TC) assistance and regional cooperation through partnerships identified and discussed.
  - Seven national and one regional project concept proposals discussed and proposed.

### **III. TARGET BENEFICIARIES**

The project directly assisted government officials at national, regional and city levels; government institutions responsible for trade and investment promotion; industry and industrial park associations; centres of excellence and financial and research institutions; development finance institutions; CAREC partners; international organizations; the private sector (chambers of commerce, SMEs and their associations, logistic service providers); and local communities in the vicinity of existing and planned industrial parks and zones.

Counterpart institutions and organizations include:

- Ministry of Economy and Industry, Republic of Azerbaijan
- Chamber of Commerce and Industry, Uzbekistan
- Institute of Forecasting and Macroeconomic Research (IFMR), Uzbekistan
- Ministry of Industry and New Technologies, Tajikistan
- Academy of Science of Turkmenistan
- UNIDO ITPO Shanghai
- China International Centre for Economic and Technical Exchanges (CICETE)
- CAREC Institute

## IV. PROJECT OVERVIEW

### IMPLEMENTATION STRUCTURE

UNIDO's Trade, Investment and Innovation (TII) Department was in charge of the overall management, coordination and implementation of this project. The Project Manager, Ms. Olga Memedovic, is located within the Business Environment, Cluster and Innovation (BCI) Division. Ms. Memedovic is UNIDO headquarter-based and supported by project administrative assistance located within BCI (this position is not funded by the project). The Project Manager was supported by international experts and national consultants for the overall coordination of the project with local counterparts and the donor; fact-finding missions to Baku, Azerbaijan, Dushanbe, Tajikistan, and Ashgabat, Turkmenistan, conducted to collect materials for diagnostic studies; conducting interviews with main stakeholders; meeting with project counterparts; and establishing mutual understanding of the project aims with all the parties involved. In the project countries, including China, the Project Team was supported by national consultants and UNIDO ITPO Shanghai, who supported the coordination of meetings, expert missions, local communications, correspondence and logistics.

At the operational level the following key experts were engaged:

- a. Output 1: NSREB industrial park knowledge sharing platform established: The Project Team at UNIDO HQ was in charge of the implementation of activities under this output, under the direct supervision of the Project Manager. In addition, national consultants provided support in the organization of country-level conferences, namely in Azerbaijan, Tajikistan and China.
- b. Output 2: NSREB strategic and operational framework and action plan for business infrastructure development produced: Four national consultants and experts from Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan and representatives from national institutions and organizations supported the Project Manager and Project Team in preparing the diagnostic studies and provided all necessary support during country missions and conducting the interviews with selected stakeholders. The Project Team at UNIDO HQ provided desk research on the literature review; best practice cases; and macroeconomic indicators for each country.

A gender balance was ensured for Outputs 1 and 2.

A Steering Committee was established comprising UNIDO, the Ministry of Economy and Industry of Azerbaijan, the Ministry of Industry and New Technologies of Tajikistan, the Ministry of Industry of Turkmenistan, and the Institute of Forecasting and Macroeconomic Research of Uzbekistan. The Steering Committee's main role consisted of strategic guidance and monitoring of progress towards established objectives and outcomes.

## PROJECT LOGICAL FRAMEWORK

Results	Indicators	Means of verification	Assumptions & Risks
<b>Objective</b>			
To contribute to ISID in countries along the New Silk Road Economic Belt (NSREB)	<ul style="list-style-type: none"> <li>- Improved position of countries according to international indicators of trade, social inclusion, employment and business infrastructure (i.e. <i>Doing Business, innovation, intra-industry trade, women's employment rate</i>)</li> <li>- Increased awareness of industrial parks' potential for industrial diversification, green growth and environmental sustainability</li> <li>- Inter-regional cooperation on the development of SITPs, zones, cities, economic corridors, and their interlinkages strengthened</li> <li>- Enhanced entrepreneurship and investment promotion in the region</li> <li>- Greater social cohesion, inclusiveness and decent job opportunity creation for women and men</li> </ul>	<ul style="list-style-type: none"> <li>- Independent programme evaluation</li> <li>- Project reports</li> <li>- National reports</li> <li>- Industrial strategies incorporating ISID principles</li> <li>- National strategy and policy document streamlined/developed</li> <li>- Statistics from international institutions, i.e. World Bank</li> </ul>	<ul style="list-style-type: none"> <li>- Stable geopolitical situation in the region</li> <li>- Commitment by the governments in the NSREB to the Sustainable Development Goals and Post-2015 development agenda</li> <li>- Funding secured at the national and regional level to secure the project's sustainability</li> </ul>
<b>Outcomes</b>			
Increased regional integration and cooperation on leveraging the potential of science, industrial and technology parks, zones and cities	<ul style="list-style-type: none"> <li>- National strategies on business infrastructure development with ISID principles mainstreamed developed and harmonized</li> <li>- Strategic and operational framework and action plan formulated, including a perspective on gender equality and empowerment of women</li> <li>- NSREB platform knowledge and information exchange through dialogue and networking on SITPs, zones and cities established</li> <li>- Focal points/units established in national agencies</li> <li>- Coordination meetings arranged with gender balanced participation of stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>- Project evaluation report</li> <li>- Meeting reports</li> <li>- Background papers</li> <li>- NSREB programme of cooperation and Action Plan</li> <li>- CAREC news and articles</li> <li>- News briefs and articles</li> <li>- Government papers</li> </ul>	<ul style="list-style-type: none"> <li>- Business infrastructure and increased awareness of SITPs, zones and cities contribute to ISID</li> <li>- Countries select focal points</li> <li>- Active participation of all stakeholders</li> <li>- Sufficient financial resources contributed by relevant stakeholders</li> <li>- Government commitment to the project</li> </ul>
<b>Outputs</b>			
1. NSREB industrial park knowledge platform established	<ul style="list-style-type: none"> <li>- Nr. of project focal points selected and participated in regional coordination meetings and workshops</li> <li>- Project Steering Committee established, with a view to having gender balanced members to the extent possible</li> <li>- Meetings and workshops successfully completed, and monitored with sex disaggregated data on participants</li> <li>- Attendance of high-level policymakers, development institutions, centres of excellence, and private sector representatives in workshops,</li> </ul>	<ul style="list-style-type: none"> <li>- Coordination meeting report</li> <li>- Regular and timely communications on updates; meeting agendas formulated and approved</li> <li>- Events' outcome and brochures developed and disseminated</li> <li>- Advocacy material produced and disseminated</li> <li>- Recommendations and best practice integrated in the Action Plan</li> <li>- Event outcome and brochures developed and disseminated</li> <li>- Recommendations and best practice integrated in Action Plan</li> </ul>	<ul style="list-style-type: none"> <li>- Active participation of stakeholders</li> <li>- Government commitment to the project</li> <li>- Stakeholders recognise the value of the platform</li> <li>- Commitment of stakeholders to the platform and willingness to invest resources for long-term sustainability</li> </ul>

	<p>roundtables and regional conferences on NSREB (on SITPs, zones and cities)</p> <ul style="list-style-type: none"> <li>- Relevant promotional material and publications</li> </ul>		
<p>2. NSREB strategic and operational framework and action plan produced; Policy framework for industrial park development formulated</p>	<ul style="list-style-type: none"> <li>- Background studies and analysis on development of SITPs, zones and cities, including analyses of gender outcomes that may be achieved</li> <li>- Analysis and needs assessments for selected SITPs, zones and cities and clusters</li> <li>- Identified national needs and potential for UNIDO TC assistance and regional cooperation, and produce TC concept proposals</li> <li>- Strategic and operational framework and action plan developed and adopted</li> <li>- Nr. of project concept proposals developed, of which some may also have gender equality and empowerment of women impacts</li> <li>- ISID is integrated into participating countries policy frameworks</li> </ul>	<ul style="list-style-type: none"> <li>- Background studies and needs assessments</li> <li>- Strategic and operational frameworks and action plans adopted by participating countries</li> <li>- TC project concept proposals</li> </ul>	<ul style="list-style-type: none"> <li>- Sufficient financial resource for background studies</li> <li>- Government commitment to the project</li> <li>- Governments and relevant stakeholders contribute to and facilitate the empirical studies and needs assessments</li> </ul>

## V. ACTIVITIES UNDERTAKEN WITHIN THE REPORTING PERIOD

The activities within the reporting period under both outputs are described below.

### Activities under Output 1 during the project implementation period are:

#### **1. Project focal points identified**

Following the project initiation, government level focal points in the project participating countries were identified, through communication with the respective line ministries and Permanent Missions in Vienna. For Azerbaijan this was the Ministry of Economy and Industry; for Tajikistan the Ministry of Industry and New Technologies; for Turkmenistan the Ministry of Industry; and for Uzbekistan the Institute of Forecasting and Macroeconomic Research.

#### **2. Project Inception Workshop, 4–5 May 2016, Baku, Azerbaijan**



The workshop attracted 150 participants, including representatives from government; the donor (Embassy of China in Azerbaijan); project partners, including ADB and the CAREC Institute; academia; the private sector; state agencies (Azerbaijan Investment Company; Azerbaijan Export and Investment Promotion Agency); IOs, such as: UNECE, and DFIs such as EBRD, the World Bank, Eurasian Development Bank, Islamic Development Bank, Asian Development Bank; representatives of NGOs; and CEOs of industrial parks and SEZs.



The main objective of the workshop was to plan and coordinate the implementation of the project, exchange views with relevant stakeholders on the objectives and scope of the project activities, discuss terms of reference for background studies to be produced, and clarify stakeholders' involvement in the project, including the public and private sectors and civil society.

During the workshop, a site visit for the participants was organized to the Balakhany Industrial Park.

#### **3. Consultants and experts hired**

Two national consultants from Azerbaijan and Tajikistan were hired to assist the Project Manager and Project Team in conducting background diagnostic studies and to provide all necessary support during country missions. A national consultant from Turkmenistan was suggested by the focal point and provided support to the project.

Two senior experts on industrial zones and parks and on their legal and regulatory aspects were hired and assisted the Project Team in formulating questionnaires and drafting the design of the overall Strategic and Operational Framework.

#### **4. Fact-finding missions and data collection**

Fact-finding missions were organized to Baku, Azerbaijan, Dushanbe, Tajikistan, and Ashgabat, Turkmenistan, with the aim to collect material for diagnostic studies, conduct interviews with the main stakeholders involved, meet with project counterparts and establish mutual understanding of the project aims with all the parties involved. During the missions interviews with project counterparts were conducted.

To facilitate data collection, a Diagnostic Study Questionnaire was prepared and disseminated to national consultants and project focal points for further distribution.

#### **5. Workshop, 27–28 April 2017, Dushanbe, Tajikistan**



The objective of the workshop was to coordinate the implementation of the project through presentation and discussion of UNIDO's draft diagnostic studies for SEZ and industrial zone development in project participating countries; to exchange views on best practices on planning and managing parks and zones, with particular focus on the countries of the CAREC Program Corridor 2, their priorities, comparative advantages and potential for regional and international integration; and to discuss the current situation and discuss further steps. UNIDO presented the interim results of the NSREB project.

ADB delivered presentations on the diagnostic studies and strategic framework for Kazakhstan and Kyrgyzstan.

This second workshop brought together 120 participants from the Government of Tajikistan; the donor (Embassy of China); project partners including ADB and the CAREC Institute; representatives from other development finance institutions (viz. EBRD, the World Bank, Eurasian Development Bank, Islamic Development Bank); representatives from academia, the private sector, state agencies and international organizations such as UNDP; NGOs; regional and local think-tanks; and CEOs of existing SEZs.



Project focal points and country representatives participating in the workshop expressed strong commitment to and support of future project activities during the workshops. Positive feedback and interest in the project from DFIs and the Permanent Missions and their attendance at the workshop again highlighted the project's investment promotion and funds mobilization objectives, especially with regards to future project activities in Tajikistan.

Local media created a positive picture of the project and UNIDO's activities in the country and promoted UNIDO's operations in the region.

A site visit for the international participants was organized to the Dangara SEZ.

Following the workshop, a report summarizing the presentations and discussions was prepared, reviewed by participants and disseminated.

#### **6. Workshop, 3 November 2017, UNIDO HQ, Vienna, with ADB and UNIDO staff**

The workshop attracted thirty participants, including high-level representatives from ADB (Vice-President) and UNIDO (Director General). Both ADB and UNIDO presented interim results and findings from their parallel project diagnostic studies, and discussed cooperation and next steps in the project implementation. The meeting was attended by UNIDO staff (20), including Managing Directors and Directors of Departments, Senior Advisers and Chiefs of the Divisions, as well as four ADB representatives, including the Special Adviser to the Vice-President and the Head of CAREC Unit.

#### **7. Final Conference, 18–20 April 2018, Shanghai, China**

The final conference of the project was held in Shanghai, China. The conference marked the end of the first phase of the NSREB project and the presentation of its planned outputs—analysis on the status and potential of science, industrial and technology parks, zones and cities, and investment opportunities in the target countries.

The conference presented the main findings of UNIDO's strategic framework for SEZ and industrial park development as well as diagnostic studies for the four project countries. The conference brought together



participants from government, special economic zones, think-tanks, the private sector, and development partners, including international organizations and DFIs, to discuss next steps and the formulation of concrete project proposals in the countries along the NSREB.



The conference, organized in collaboration with the Jinqiao Development Management Committee, Shanghai, and UNIDO ITPO Shanghai, attracted participation from the four project focus countries, Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan, and China, as well as from international financial institutions—the Asian Development Bank (as project partner) and the World Bank, experts on China's Belt and Road Initiative and Maritime Silk Road Initiative, and representatives from parks and zones in China.



The objective of the conference was three-fold. Firstly, the conference participants were presented with the methodology of the strategic approach and main findings of diagnostic studies prepared during the project on the status of parks and zones in the project countries. In addition, the key recommendations for establishing new parks and zones and upgrading existing ones were shared from the Strategic Framework for Leveraging Industrial Parks and Zones for Inclusive and Sustainable Development. Representatives from the four project

countries were given the opportunity to react to the two draft publications presented, as well as provide national overviews of the status of parks and zones and future plans.

The second aim of the conference was to discuss international and regional initiatives to promote integration and boost cross-border trade, notably through the Chinese government's Belt and Road Initiative (BRI) and the Asian Development Bank's CAREC Program. The BRI incorporates the New Silk Road Economic Belt and the Maritime Silk Road Initiative and has the potential to attract huge investment to Central Asia and provide opportunities for trade and economic growth based on value added and high technology sectors. The CAREC Program has invested heavily in energy and transport infrastructure along six cross border economic corridors, linking Central Asian countries to China in the east, Europe in the west, Russia to the north and Pakistan to the south. The aim of the UNIDO project—and the ADB's parallel project—is to ensure these transport and energy corridors take full advantage of economic and trade potential by leveraging the potential of sustainable industrial parks, special economic zones and smart cities, in all their forms.

The conference attracted over 100 participants, including high-level representatives from the Silk Road Chamber of International Commerce; Jinqiao SEZ Development Management Committee; the World Bank; Shanghai Foreign Investment Development Board and Shanghai Overseas Investment Development Board; Shanghai Academy of Social Sciences; and the Administrative Committee of Shanghai Baoshan District City Industrial Park. A site visit to the *Shanghai Jinqiao Export Processing Zone* was organized as part of the workshop.

### **Activities under Output 2 during the project implementation period are:**

#### **1. NSREB strategic and operational framework and action plan**

The diagnostic studies address issues related to economic zones along the CAREC Corridor 2, and organizational aspects of industrial agglomerations, such as infrastructure, utilities, transport and logistics, and regulatory and policy measures. The studies cover the specific requirements when parks have a sector focus; the associated infrastructure required for agro-industries or metallurgical complexes, for instance. The role of different economic actors—the government, local authorities and also the public and private sectors—is extremely important. Attention is also given to ecological aspects, sustainability and inclusiveness. In the long term, economic zones should facilitate the participation of marginalized groups in productive sectors.

The diagnostic studies identify outstanding issues relating to the development of science, industrial and technology parks, zones and cities, specifically the following aspects:

- Global trends and regional context of science, industry and technology park development.
- Gender specific aspects.
- Status of different typologies of existing and planned science, industrial and technology parks, zones and cities.
- Challenges and opportunities focusing on hard infrastructure, related service development, and institutional and legal framework.
- Relevant science, industrial and technology parks, zones and cities analysis, clarifying how cities benefit from industrial corridors and how industrial corridors benefit from industrial parks.
- Identification of adaptable models of science, industrial and technology parks, zones and cities development leading to integration into the regional and global value chains.
- Mapping participation in regional and global value chains.
- Recommendations with formulation of a list of projects in selected science, industrial and technology parks, zones and cities within the context of regional economic integration.
- Recommendations for policy/regulatory reforms, where necessary.

The diagnostic studies identify critical issues, formulate guidelines (in accordance with international rules and best practices) but also recommend pathways, rather than solutions, thereby:

- improving the decision-making process for new zone creation and operation, and
- enhancing existing zone role and effectiveness, redefining or reorienting zone functions, in order to boost zone potential to promote economic and social development of the regions or areas where they are located.

The methodology is based on a quantitative and qualitative analysis of data collected from primary and secondary sources—crosschecked against information provided by relevant stakeholders during on-site visits—complemented by general insights and considerations on the legal/institutional framework coming from the review conducted with the support of national consultants.

The documents reviewed are government strategy plans and reports, laws and regulations, publications, zone presentations from official websites, reports of international fora and meetings, and relevant literature.

The analysis was conducted as follows:

- ❖ Collection and assessment of information and data;
- ❖ Identification of the criteria and parameters for obtaining an homogeneous system of data;
- ❖ Conducting fact finding missions to the project countries to verify and validate collected information and conduct interviews with relevant stakeholders.
  
- ❖ Analysis of information and diagnosis:
  - i. In depth off-site desk review of documentation related to the subjects;
  - ii. Synthesis of interviews, verification and validation of on-site information collected;
  - iii. International benchmarking with worldwide best practices, with particular focus on countries characterized by similar political, economic and social scenarios.

During this overall exercise, the following resources were used:

- UNIDO internal expertise, provided by a team of national and international experts and supported by the outcomes of UNIDO’s previous and ongoing activities in the sector;
- Government partners’ available documentation and technical contributions, throughout an integrated consultation process;
- Legal and economic assessments and available reports already conducted by other international organizations;
- Other surveys conducted on- and off-site through interviews and questionnaires targeting main stakeholders.

Peer review of the Strategic and Operational Framework by experts from the World Bank, Chinese industrial zones, and academics.

## ***2. Strategic Framework for leveraging parks and zones for inclusive and sustainable industrial development***

The strategic framework was prepared in the context of the UNIDO project. It was designed to assist governments and international institutions in using various forms of industrial parks as special policy instruments to promote inclusive and sustainable industrialization and economic development.

The framework identifies critical issues and outlines the major steps to be taken for the establishment and management of an industrial park. It provides guidelines, in accordance with international best practices, rather than solutions, supporting the decision-making process for establishing new parks and zones and their operation—and enhancing existing parks and zones’ effectiveness in promoting ISID of the regions or areas where they are located.

The strategic framework is a road map that:

- Provides a brief overview of concepts of industrial parks, zones and other territorial units, their roles and expectations as development policy instruments, highlighting their evolution over time.
- Underlines the importance of connecting a park and zone to the regional economy and to the global economy by linking SMEs and their clusters hosted by the park to global value chains.
- Clarifies the roles of various stakeholders, such as policymakers, regulators, zone and park authorities and management bodies, as well as investors, firms, employees and representatives of civil society.
- Presents good practices and successful experiences in establishing and managing industrial parks in line with ISID.
- Explains the principal phases of planning and implementing a park or zone project: preparatory analysis; diagnostics; policy design and planning; implementation and financing; operation and adaptation, promotion and marketing; and monitoring.
- Provides a checklist of information to gather and analyze as part of the process of planning and implementing new parks and refurbishing existing ones.
- Delineates key success factors and minimum requirements, or performance standards, covering legal, regulatory, social, economic and environmental aspects, to monitor and evaluate existing or planned parks, with the objective of contributing to national progress on realizing Sustainable Development Goals (SDGs).

### **3. Action plan for the Second Phase of the project**

Building on the achievements of the project and its partnership with ADB, including the diagnostic studies on the status of parks and zones and legislative and regulatory frameworks in the project countries, macro-economic analysis, as well as the creation of a knowledge platform for exchanging best practices and experiences on setting up and managing smart and sustainable parks and zones, UNIDO intends to initiate a second phase that will build the capacity of stakeholders in Central Asia to leverage the potential of a new generation of smart and sustainable industrial parks, zones and cities for the realization of the 2030 Agenda for Sustainable Development and the SDGs, and to respond to the client countries’ demand to design and implement concrete technical cooperation projects for establishing new, or transforming existing, smart and sustainable parks, zones and cities.

The second phase would also seek to maintain the networking and knowledge and experience sharing platform, designed for policymakers, practitioners and academics to better understand the role of new technological trends shaping the digital economy and how these technologies can be leveraged for the formation of the new generation of smart and sustainable industrial parks and zones.

The Action Plan sets out the overall objective, outcomes, outputs and activities with the most potential to benefit the project countries during the project’s second phase.

The objective is that capacity of concerned stakeholders is improved so that special policy

instruments such as a new generation of zones and parks are effectively used for SME clusters and value chain development and for pursuing inclusive and sustainable industrial development in Central Asia.

The outputs would be the formulation of national and local strategies; legal and regulatory frameworks; systems, procedures and competences to plan and administer parks and zones set up; and key stakeholders trained in the process of industrial park planning, development, management, and monitoring.

Beneficiaries of the next phase would be representatives from governments at the national, provincial and local levels; industrial associations; chambers of commerce; industrial park planners, developers, operators and managers; national agencies on trade regulation and investment promotion; financial and research institutions; the private sector, as well as representatives from the surrounding areas of the industrial parks and zones.

Based on the objective and results of the project's first phase, and demand indicated by the project country counterparts, seven national and one regional project concept proposals were prepared and discussed.

## KEY ACHIEVEMENTS

### Output 1: NSREB industrial park knowledge sharing platform established

- **400 experts/practitioners/policymakers/academics** contributed to the Industrial Park Knowledge Platform.
- The Baku workshop of 4–5 May 2016, Azerbaijan: **150 participants**, including representatives from government; the donor (Embassy of China); project partners including ADB and the CAREC Institute; academia; the private sector; state agencies (Azerbaijan Investment Company; Azerbaijan Export and Investment Promotion Agency); international organizations, such as: UNECE, and development finance institutions such as EBRD, the World Bank, Eurasian Development Bank, Islamic Development Bank, Asian Development Bank; representatives of NGOs; and CEOs of industrial parks and SEZs.
- The Dushanbe workshop of 27–28 April 2017, Tajikistan: **120 international and local participants** from the Government of Tajikistan, SEZs, regional and local think-tanks, the private sector, IOs and DFIs; representatives of NGOs; and CEOs of industrial parks and SEZs.
- Workshop at UNIDO HQ with the ADB and UNIDO staff in November 2017 in Vienna: **30 participants** including the high-level participation from ADB (Vice-President) and UNIDO (DG).
- Project Final Conference of 18–20 of April 2018 in Shanghai, China: **over 100 participants**, including high-level representatives of the Silk Road Chamber of International Commerce; Jinqiao SEZ Development Management Committee; the World Bank; Shanghai Foreign Investment Development Board & Shanghai Overseas Investment Development Board; Shanghai Academy of Social Sciences; Administrative Committee of Shanghai Baoshan District City Industrial Park.
- Advocacy and promotional material produced: **three press releases produced** for the project workshops; **two-pager advocacy material with achievements produced. Local media reported on the country workshops**, creating a positive picture of the UNIDO project activities in the country, and promoting UNIDO operations in the region. Positive feedback received from the participating countries after the workshop.
- **Three reports from workshops and coordination meetings produced**, and shared with participants and uploaded online.

- **Background studies**, including on land zoning, country questionnaire and consultancy reports produced.
- Country questionnaire conducted.
- **Three country site visits organized to:**
  - Sumgait Industrial Park, Azerbaijan;
  - Dangara Special Economic Zone, Tajikistan;
  - Jinqiao Special Economic Zone, including: Agro park, automotive industry plant and High-tech park.

## **Output 2: NSREB strategic and operational framework and action plan**

- **Strategic and Operational framework formulated**, with gender and sector specific issues included.
- Four senior experts on industrial zones and parks and on land zoning assisted the project team in formulation questionnaire and provided inputs for preparing the Strategic and Operational Framework.
- Peer review of the Strategic and Operational framework by the World Bank and Chinese Industrial Zones specialists/experts and academics.
- **Diagnostic studies for four project participating countries produced.**
- Diagnostic and macroeconomic analysis and assessment of the status of industrial parks and zones, including gender and sector specific areas produced.
- Four national consultants and experts from Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan and representatives from national institutions and organizations supported the project manager and project team in preparing the diagnostic studies and provided all necessary support during country missions and while conducting interviews with selected stakeholders.
- **Three fact-finding missions** to Baku, Azerbaijan, Dushanbe, Tajikistan, and Ashgabat, Turkmenistan were conducted to collect material for diagnostic studies, conduct interviews with main stakeholders involved, meet with project counterparts and establish mutual understanding of the project aims with all the parties involved. Respective mission's reports were prepared.
- Project team at UNIDO HQ provided desk research for the literature review; best practices cases; and macroeconomic indicators per country.
- **Action plan for the Second Phase produced.**
- National needs and potential for UNIDO TC assistance and regional cooperation through partnerships identified and discussed.
- **Seven national and one regional project concept proposals discussed and proposed.**
- Partnerships established with national and regional institutions and organizations:
  - Institute of Forecasting and Macroeconomic Research (IFMR) of Uzbekistan;
  - Chamber of Commerce and Industry, Uzbekistan;
  - Sumgayit Chemical Industrial Park LLC, Azerbaijan;
  - Almaty Tech Garden, Kazakhstan;
  - Independent Ecological Expertise, Kyrgyzstan;
  - CAREC Institute, China;
  - ADB, IFC, the World Bank, Eurasian Development Bank, EBRD, Islamic Development Bank, KfW, UNDP, and UNECE;
  - Tianjin Normal University, China;
  - Silk Road Chamber of International Commerce;
  - Jinqiao SEZ Development Management Committee;
  - Shanghai Foreign Investment Development Board & Shanghai Overseas Investment Development Board;
  - Shanghai Academy of Social Sciences;

- Shanghai Baoshan District City Industrial Park.

## **ACHIEVEMENTS ON CROSS-CUTTING ISSUES**

The project promoted green industry by raising awareness of different types of industrial parks, including the latest models and eco-industrial parks.

In terms of standard-setting and compliance, the project's Strategic and Operational Framework provided standards and check lists for establishing industrial parks.

## **COMMUNICATION & PARTNERSHIP**

### **Coordination Meetings**

On the sidelines of the 4–5 May 2016 Inception Workshop in Baku, Azerbaijan, the first coordination meeting was held with national project focal points and national consultants to introduce and discuss further steps of the project.

The second coordination meeting and consultation was held on the sidelines of the 27–28 April 2017 Dushanbe workshop, with participation of the focal points and consultants from Azerbaijan, Turkmenistan and Tajikistan. The project focal point for Uzbekistan, the Institute of Forecasting and Macroeconomic Research, was present at the workshop. Meeting participants discussed the current status and further steps of the project. In the last quarter of 2017 a new project focal point representative from the Chamber of Commerce of Uzbekistan was appointed.

### **Partnerships**

Partnerships were established with the following national and regional institutions and organizations:

- Institute of Forecasting and Macroeconomic Research (IFMR) of Uzbekistan
- Chamber of Commerce and Industry of Uzbekistan
- Sumgayit Chemical Industrial Park LLC, Azerbaijan
- Almaty Tech Garden, Kazakhstan
- Independent Ecological Expertise, Kyrgyzstan
- CAREC Institute, China
- ADB, IFC, the World Bank, Eurasian Development Bank, EBRD, Islamic Development Bank, KFW, UNDP, and UNECE
- Tianjin Normal University, China
- Silk Road Chamber of International Commerce
- Jinqiao SEZ Development Management Committee
- Shanghai Foreign Investment Development Board & Shanghai Overseas Investment Development Board
- Shanghai Academy of Social Sciences
- Shanghai Baoshan District City Industrial Park

## CHALLENGES

Due to political turbulence in Uzbekistan, the nomination of Uzbekistan's focal point was delayed. There also was an underrepresentation of counterparts from Uzbekistan at the Inception Workshop (internal government approval procedures prevented their attendance). The political situation eventually improved allowing for the initial partner, Chamber of Industry and Commerce, to take part in the project's activities and present at the project's final workshop in Shanghai, China.

It was difficult to obtain practical and up-to-date information on the status of special economic zones and parks in Turkmenistan from respective counterparts. Information gathered for the Diagnostic Study on Turkmenistan was based on desk research and presentations made by Turkmenistan's focal points at the project workshops in Baku, Dushanbe and Shanghai.

## LESSONS LEARNED & SUGGESTIONS

- Maintain regular contact with Permanent Missions to ensure full engagement of country stakeholders in the project.
- To ensure that gender targets are met, put a strong emphasis on gender balance when requesting participating countries to identify focal points.
- Although some obstacles at the political level cannot be predicted, it is important to remain in contact with country officials and to explore alternative ways of engaging with national stakeholders. In the case of Uzbekistan, the project was able to proceed despite initial government reticence thanks to the intervention of other actors that UNIDO had previously worked with in the country. Another recommendation is to request in-house assistance and advice on how to overcome official refusal to participate in the project, again making use of contacts that others may have made through other projects.
- Ensure that monthly updates from external consultants are received.
- Issues with collecting data and information are in themselves also results to be included in diagnostic studies assessing the status of parks and zones in the project participating countries. These shortfalls could point to capacity issues, which may also be potential areas for future UNIDO assistance.

## VI. DETAILED WORKPLAN

### PROJECT MANAGEMENT

	Project Management Related Activities	2016–2018 (time plan)										Major Milestones
		2016				2017				2018		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
	Progress reports						X			X		Progress report drafted, circulated and validated
	Project coordination meetings		X				X			X		Project coordination meetings organized and minutes prepared
	Final Closure									X		Closure of project
	Final report and case studies										X	Report and case studies published

### OUTPUT 1: NSREB Industrial Park knowledge platform established

Key Activities	2016–2018 (time plan)										Major Milestones	
	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
1.1 Identify project focal points and counterpart institutions and establish project steering committee	X	X										National focal points identified

1.2 Organise inception workshop and coordination meeting in Azerbaijan	X	X									The implementation of the project was planned and coordinated; relevant stakeholders exchanged views on the objectives and scope of activities; the terms of reference for background and case studies to be produced were discussed, including gender aspects; and stakeholder involvement in the project was clarified
1.3 Prepare promotional materials and publications			X						X		Promotional brochures about the project produced; Diagnostic Studies, Strategic and Operational Framework, and Action Plan prepared
1.4 Organise a second coordination meeting in Tajikistan					X						Second coordination meeting held in Tajikistan, interim results presented
1.5 Organise a dissemination conference in China									X		Final Conference organized, Conference Edition of Diagnostic Studies and Strategic and Operational Framework presented and sent for peer review

### OUTPUT 2: NSREB strategic and operational framework and action plan produced

Key Activities	2016–2018 (time plan)										Major Milestones
	2016				2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
2.1 Prepare NSREB empirical studies on the status of science, industrial and technology parks, zones and cities					X	X	X	X	X		Empirical studies/Diagnostic Studies prepared for 4 participating countries, identifying the status of SEZs and parks and problems encountered for their establishment
2.2 Formulate the Strategic and Operational Framework					X	X	X	X	X		Overall Strategic and Operational Framework prepared and peer reviewed by World Bank and Chinese academics

2.3 Design and formulate overall Action Plan for project second phase							X	X	X		Action Plan formulated
2.4 Identify and formulate TC project concept proposals to address identified outstanding issues									X		Six concrete technical cooperation project concept proposals (3 for Azerbaijan, 3 for Tajikistan) for the development of science, industrial and technology parks, zones and cities were formulated, as well as one project concept idea for Turkmenistan and Uzbekistan), and one regional project concept proposal

## VII. MONITORING

In order to assure timeliness of the envisaged project activities and to assess results achieved, a coordination mechanism was established, the “New Silk Road Project Steering Committee”, consisting of designated focal points from respective counterparts, meeting on an annual basis.

In terms of progress vis-à-vis the indicators listed at the outcome and output levels in the project’s logical framework, considerable achievements can be reported as follows:

### At the outcome level:

- National strategies on business infrastructure development with ISID principles mainstreamed, developed and harmonized.
- Strategic and Operational Framework and Action Plan formulated, including a perspective on gender equality and empowerment of women.
- NSREB knowledge platform and information exchange through dialogue and networking on SITPs, zones and cities established.
- Focal points/units established in national agencies.
- Coordination meetings arranged with gender balanced participation of stakeholders.

### At the output level:

#### **Output 1**

- **Indicator: Nr. of project focal points selected and participated in regional coordination meetings and workshops**

Four project focal points were selected and participated in the project workshops and coordination meetings.

- **Indicator: Project Steering Committee established, with a view to having gender balanced members to the extent possible**

The Project Steering Committee was established.

- **Indicator: Meetings and workshops successfully completed, and monitored with sex disaggregated data on participants**

The Inception Workshop held in Baku, Azerbaijan, attracted 150 participants; the Second Workshop held in Dushanbe, Tajikistan, attracted 120 participants; and The Final Workshop, held in Shanghai, China, attracted over 100 participants.

- **Indicator: Attendance of high-level policymakers, development institutions, centres of excellence, and private sector representatives in workshops, roundtables and regional conferences on NSREB (on SITPs, zones and cities)**

Four hundred experts/practitioners/policymakers/academics contributed to the Industrial Park Knowledge Platform as follows:

The Baku workshop of 4–5 May 2016 was attended by 150 participants, including representatives from government; the donor (Embassy of China), project partners including ADB and the CAREC Institute; academia; the private sector; state agencies (Azerbaijan Investment

Company; Azerbaijan Export and Investment Promotion Agency); international organizations, such as UNECE, and DFIs, such as EBRD, the World Bank, Eurasian Development Bank, Islamic Development Bank; Asian Development Bank; representatives of NGOs; and CEOs of industrial parks and SEZs.

The Dushanbe workshop of 27–28 April 2017 was attended by 120 international and local participants from the Government of Tajikistan; SEZs; regional and local think-tanks; the private sector; IOs and DFIs; representatives of NGOs; and CEOs of industrial parks and SEZ.

The workshop at UNIDO Headquarters in Vienna held with ADB and UNIDO staff on 3 November 2017 was attended by 30 participants, including high-level participation from the ADB (Vice-President) and UNIDO (Director General).

The project Final Conference of 18–20 April 2018 in Shanghai, China, was attended by over 100 participants, including high-level representatives of the Silk Road Chamber of International Commerce; Jinqiao SEZ Development Management Committee; the World Bank; the Shanghai Foreign Investment Development Board and Shanghai Overseas Investment Development Board; the Shanghai Academy of Social Sciences; and the Administrative Committee of Shanghai Baoshan District City Industrial Park.

Three country site visits were organized to: Balakhany Industrial Park, Azerbaijan; Dangara Special Economic Zone, Tajikistan; Jinqiao Special Economic Zone, including: Agro park, automotive industry plant and High-tech park.

- **Indicator: Relevant promotional material and publication**

In total, three press releases were produced (one for each workshop conducted over the course of the project) as well as a two-pager advocacy brochure with project achievements. Local media reported on the country workshops, creating a positive picture of UNIDO project activities in the country and promoting UNIDO operations in the region. Positive feedback was received from the participating countries after the workshop.

## Output 2

- **Indicator: Background studies and analysis on development of SITPs, zones and cities, including analyses of gender outcomes that may be achieved**

Background studies, including on land zoning, country questionnaire and consultancy reports were produced. A country questionnaire was also conducted.

- **Indicator: Analysis and needs assessments for selected SITPs, zones and cities and clusters**

Diagnostic Studies for the four project participating countries produced.

Diagnostic and macroeconomic analysis and assessment of the status of industrial parks and zones, including gender and sector specific areas produced.

Four national consultants and experts from Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan and representatives from national institutions and organizations supported the Project Manager and the Project Team in preparing the Diagnostic Studies and provided all necessary support during country missions and conducting the interviews with selected stakeholders.

Three fact-finding missions to Baku, Azerbaijan, Dushanbe, Tajikistan, and Ashgabat, Turkmenistan were conducted to collect materials for diagnostic studies, conduct interviews with main stakeholders involved, meet with project counterparts and establish a mutual

understanding of the project aims with all the parties involved. Respective mission reports were prepared.

The Project Team at UNIDO HQ provided desk research on the literature review; best practices cases; and macroeconomic indicators per country.

- **Indicator: Identified national needs and potential for UNIDO TC assistance and regional cooperation, and produce TC concept proposals**

An Action Plan for the Second Phase was produced in which national needs and the potential for UNIDO TC assistance and regional cooperation through partnerships were identified and discussed.

Seven national and one regional project concept proposals discussed and proposed.

- **Indicator: Strategic and operational framework and action plan developed and adopted**

Strategic and Operational framework formulated, with gender and sector specific issues included.

Four senior experts on industrial zones and parks and on land zoning assisted the Project Team in questionnaire formulation and provided inputs for preparing the Strategic and Operational Framework.

A peer review of the Strategic and Operational framework by the World Bank and Chinese industrial zones specialists/experts and academics was conducted.

- **Indicator: Nr. of project concept proposals developed, of which some may also have gender equality and empowerment of women impacts**

Six concrete technical cooperation project concept proposals (3 for Azerbaijan, 3 for Tajikistan) for the development of science, industrial and technology parks, zones and cities were formulated, as well as one project concept idea for Turkmenistan and Uzbekistan, and one regional project concept proposal. Gender equality and women impacts were taken into account during their development.

- **Indicator: ISID is integrated into participating countries policy frameworks**

During the first phase of the project the diagnostic studies identified gaps and obstacles hindering the potential of parks and zones to contribute to inclusive and sustainable industrial development in the four participating countries. The Action Plan produced outlines participating countries' national needs, potential areas of UNIDO technical assistance and project concept proposals, taking into account the need to integrate ISID into participating countries' policy frameworks.

## **VIII. VISIBILITY**

- Three press releases were produced for the project workshops.
- Two-pager advocacy material with achievements was produced.
- Local media reported on the country workshops, creating a positive picture of the UNIDO project activities in the workshop countries and promoting UNIDO operations in the region.
- Positive feedback was received from the participating countries after the workshop.
- Three reports from workshops and coordination meetings produced, and shared with participants and uploaded online.

## **IX. ANNEXES**

- Annex 1: Inception Workshop Summary
- Annex 2: Second Workshop Summary
- Annex 3: Final Conference Report

Annex 1: Inception Workshop Summary

**Fostering inclusive and sustainable industrial development (ISID) in  
the New Silk Road Economic Belt:  
Leveraging potentials of industrial parks, zones and cities**

**Inception Workshop**

**4-5 May 2016**

**Summary**



## Day One, 4 May

### Official opening of the workshop and greetings

**Mr. Niyazi Safarov**, Deputy Minister of Economy of the Republic of Azerbaijan

**Mr. Sahil Babayev**, Deputy Minister of Economy of the Republic of Azerbaijan

**Mr. Almaz Sazbakov**, Deputy Minister of Economy, Kyrgyzstan

**Mr. Yu Hongchi**, Counsellor, Embassy of the People's Republic of China in the Republic of Azerbaijan

**Ms. Olga Memedovic**, Officer-in-Charge, Office of Strategic Planning & Coordination, UNIDO

**Mr Niyazi Safarov**, Deputy Minister of Economy of Azerbaijan

The New Silk Road Economic Belt (NSREB) is an important project and this landmark event is a high priority for us. Given that many countries have been affected by the global financial crisis, it is important now more than ever to strengthen relations and partnerships based on mutual interest for the benefit of all countries.

Azerbaijan has long been at the centre of the Silk Road. In December 2015, the President of Azerbaijan visited the People's Republic of China and discussed opportunities for the NSREB, as well as possible contributions from both sides towards this shared project. The NSREB is another opportunity for us to develop this inclusive concept and is fully supported by the Government of Azerbaijan.

This project builds on UNIDO's initiatives in Azerbaijan. In 2012, in cooperation with UNIDO, the Minister of Economy of Azerbaijan organized a regional conference in Baku, with participation from over 15 countries in Europe and Central Asia. In 2014, again in Azerbaijan, UNIDO was a partner in organizing the Baku International Industry Conference: *Industrialization in the 21<sup>st</sup> century, the main trends, the modern approach and best practices*, an event that attracted more than 350 participants from 21 countries, including Mr. Shahin Mustafa, Minister of Economy of Azerbaijan, 20 organizations, and foreign companies. We believe that all participants will benefit from this inception meeting, which serves as a platform for our future interactions.

This project aims to leverage the potential of industrial parks and regional cooperation, and to strengthen the enforcement of economic reforms. Cities, clusters, park and zones need to work with NGOs, civil society and all relevant organizations that can contribute to their development in our countries. This project will contribute to the NSREB, industrialization and the establishment of parks, zones and cities, and will strengthen our economies. Azerbaijan has already benefitted and accumulated experience from industrial parks — experience that will be shared with you over the course of this two-day workshop.

At the moment, industrial parks in Azerbaijan and the organization and management of these industrial clusters, as well as the contribution to and support of these clusters, benefit from a

systematic approach, which has produced positive results and improvements to the business environment. Azerbaijan's investment and the decrees of the President of Azerbaijan to foster this development and establish a new business environment and an atmosphere for investment have enabled Azerbaijan to attract investment at the regional level.

Thanks to targeted government policies, up to 70 per cent of Azerbaijan's economy is non-oil based. In 2015, the non-oil economy grew by 10 per cent. Science and academia are important for Azerbaijan's development and for the establishment of new projects, prospective projects, as well as for sustainable development. Reinforcing this development will depend on scientific research and studies. This workshop will discuss the importance of regional ties, information exchange and project expectations. The Ministry of Economy of Azerbaijan is fully supportive and stands ready to provide all possible means to facilitate information exchange and share Azerbaijan's experience.

**Mr Sahil Babayev**, Deputy Minister of Economy of Azerbaijan

Azerbaijan has been a member of the UN since 1992 and our cooperation at all levels has been reinforced throughout the years. The 2016–2020 United Nations Development Assistance Framework (UNDAF) includes projects with a total value of around US\$ 78m. This framework covers all development spheres and involves a number of UN agencies. Priorities include the strengthening of human capital, environment, ecology and support for industry.

We have been working intensively with UNIDO since 2000, the year Azerbaijan signed a memorandum of understanding with UNIDO. We have had two UNDAFs, several international conferences, seminars and projects. As a result, the objectives of Azerbaijan in the economic sphere have been supported by our partnership with UNIDO. This is not only about financial aid; the UN and its specialized agencies, specifically UNIDO, bring expert knowledge, know-how and experience. We believe that our partnership will be very successful and productive.

During its 'Year of Industry' in 2014, Azerbaijan instituted a number of measures to boost non-oil sectors of the economy, and to encourage the establishment of industrial parks and clusters, economic zones, new free zones and free trade regimes. Other measures are being taken in Azerbaijan to reinforce and strengthen Azerbaijan's position as a regional hub.

An established transit point for hundreds of years, Azerbaijan enthusiastically joined the NSREB initiative from the beginning and has taken steps to foster trade, such as establishing a coordination council to regulate tariffs, simplify procedures and reduce bureaucracy. In the last six months, transit procedures have been improved and a unified tariff system for oil and gas products has been put in place. Overall, tariffs have been reduced by up to 40 per cent. As a result, the amount of goods transported by road in Azerbaijan has increased sevenfold.

Transit and logistics are not only about infrastructure, but also simplification of procedures and competitive tariffs and rates. Only a small proportion of trade between the European Union (EU)

and China is by land. Azerbaijan, along with its partners, such as China and the EU, intends to make land transit more competitive, quicker and more accessible, and provide additional facilities like warehouses, services and financial capability.

Azerbaijan has long been a trade corridor for the transport of goods and services. We established [www.transit.az](http://www.transit.az), a web portal providing information on tariffs. Transit regulations are not limited to one country and development will only happen when all countries cooperate. We work with our neighbours, including Turkey, Georgia, Kazakhstan and Turkmenistan. These routes are already being discussed with our partners in the region and we are considering to establish a unified single information portal, which will cover Azerbaijan and many other countries. We are planning a stimulus to develop transit routes. This is one of the objectives within the framework and this meeting on industrial parks, zones and cities is an important contribution.

Infrastructure is crucial for economic development, but it is pointless without the procedures, legislation and services in place. It is important to learn best practices from other countries in order to talk about regional cooperation, industrialization and industrial parks in our countries.

**Mr Almaz Sazbakov**, Deputy Minister of Economy of Kyrgyzstan

This project will contribute to inclusive and sustainable industrial development of the countries along the NSREB. In their speeches, Mr Safarov and Mr Babayev focused on the importance of industrial zones and regional cooperation.

Flows of goods and capital in the near future will be triangulated between the United States, Europe and China. Taking into account this focused cooperation, especially as regional cooperation becomes increasingly important, the Kyrgyz Republic is concentrating on the development of industrial zones.

**Mr. Yu Hongchi**, Counsellor, Embassy of the People's Republic of China in Azerbaijan

Trust between China and the countries of Central Asia and South Caucasus is steadily increasing and cooperation in different dimensions is dynamically expanding. In September 2013, during a visit to Kazakhstan, Chinese President Xi Jinping proposed to build the NSREB. This important initiative has provided us with the opportunity to enlarge and scale up cooperation among the countries along the Silk Road.

Though the impact of the global economic crisis continues to be felt, it does not frighten us. What is frightening is that we cannot overcome this crisis and turn it into an opportunity. The development of the NSREB creates possibilities for cooperation between China and the countries along the Silk Road. We have already noticed that all countries along the NSREB are taking steps to develop their industries. In Azerbaijan, there is a strategy in place to develop industries by 2020.

Other countries have similar programmes and strategies and we have to find some commonalities

to further develop industries in the region. Today's workshop is dedicated to that issue — developing our cooperation to meet our countries' needs. This project will be very successful with the support of all of the countries, and with extensive support from UNIDO and China. UNIDO has contributed a lot to the development of industries in our countries.

To quote President Aliyev during his visit to China, “against the background of the global economic crisis, we have to strengthen cooperation and further deepen possibilities and opportunities for cooperation”. This workshop is a very useful platform to discuss cooperation among participating countries and to further explore industrial cooperation and transit routes.

**Ms Olga Memedovic**, Officer-in-Charge, Office of Strategic Planning & Coordination, UNIDO

I am extremely pleased to see distinguished participants and experts from governments, international organizations, the public and private sector, financial institutions, academia and civil society. We also have experts from Azerbaijan, the host country, as well as from Europe, Central Asia and beyond. This event highlights the importance of the subject for the region and demonstrates a commitment to realizing the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). This conference focuses directly on SDG 9, “to build resilient infrastructure, promote sustainable industrialization and foster innovation”, which is also the mandate of UNIDO, particularly inclusive and sustainable industrial development.

In SDG 9, the international community recognized the importance of the nexus between industrialization, infrastructure and innovation. As we have heard, industrialization is important because of its multiplier effect on all economic sectors. Inclusive and sustainable industrial development is the key to promoting sustainable economic growth, employment and decent work for all — this is SDG 8. Industry is fundamental to end poverty in all its forms everywhere — this is SDG 1. Industry, by providing jobs and expanding the fiscal revenues needed for social investment, can boost capacity of governments for inclusive development.

The focus on industrialization is also very timely. We are witnessing a slump in commodity prices and slow economic growth everywhere, particularly in the most vulnerable countries dependent on commodity exports. Infrastructure in this context is important as it enables trade, network development and market integration. Innovation, technology and entrepreneurship are recognized as engines of economic growth. Technology and innovation are expected to foster prosperity and competitiveness, environmental and social sustainability, stimulate industrial diversification and improve quality of life. Given this nexus, to foster inclusive and sustainable industrialization in the New Silk Road Economic Belt, investment in resilient transport infrastructure is a prerequisite. This will enable low cost trade in goods and services, and flows of capital, knowledge and labour. The development of logistics and industrial corridors can accelerate economic linkages and networks to build regional and supply global value chains.

Regional and policy initiatives that address trade openness, market barriers, tariffs and other impediments to build capacity in terms of trade facilitation, access to capital, knowledge and

technology, leveraging all historical and geographical comparative advantages of all Silk Road countries, which should be an asset.

Industrial agglomerations and other growth benefits could be realized using a hub development approach around transport nodes and urban centres. In synergy with investment in transport networks, this could trigger a web of secondary industrial and urban agglomerations around these nodes and hubs. By efficiently and effectively linking industrial and logistics hubs, economic linkages and networks may extend over an even larger megaregional area, dramatically expanding markets and division of labour, shaping patterns of regional economic development. Greater connectivity, network development and market integration, combined with policies to promote industrial agglomerations, strengthen SME clusters and networks along and between the production value chains, leading to greater industrial diversification and productivity.

The purpose of this workshop is to discuss the role of industrial parks, zones and cities. These instruments of economic development contribute to national innovation building and social development strategies. The conference will also discuss the effects of intra-regional cooperation on economic diversification, modernization and growth.

It is necessary to foster inclusive and sustainable development along the New Silk Road. This region is highly diverse in terms of geography, economic structure and natural resource endowments. Independent of income level, countries along the New Silk Road face common challenges. For instance, they are experiencing increasing economic inequality, environmental degradation and weak levels of intra-regional trade. Consequently, the diversification of the industrial base tends to be quite narrow in many countries. Although some countries have made progress, others are still lagging behind.

The agenda for the next two days will focus on the design of programmes and policies for the development of parks in their various forms, including eco-industrial parks. We hope that this project will create a knowledge sharing platform among other countries along the six corridors of the CAREC programme that other countries can learn from, for example, leveraging industrial corridors, fostering industrialization in Africa and LDCs. The participation of all these countries will strengthen collaboration and regional integration and create a solid basis for future work in cooperation with UNIDO and for the continuous pursuit of SDG 9.

## **Panel Session 1: Introducing the main issues and purpose of the workshop**

Moderator: Ms. Olga Memedovic, Officer-in-Charge, Office of Strategic Planning & Coordination, UNIDO

Speakers:

Mr. Nariman Mannapbekov, Azerbaijan Country Director, Asian Development Bank

Mr. Niyazi Safarov, Deputy Minister of Economy of the Republic of Azerbaijan

Ms. Olga Memedovic, Officer-in-Charge, Office of Strategic Planning & Coordination, UNIDO

Mr. Ralf Bredel, UNIDO Representative in China

Mr. Kubat Umurzakov, Director, CAREC Institute

**Mr Nariman Mannapbekov**, Azerbaijan Country Director, Asian Development Bank

ADB's project covering Kyrgyzstan and Kazakhstan is designed to assist the two countries with the development of industrial zones and strategies to address past and future challenges. During the first phase of the project (2015 - September 2016), ADB will conduct two studies in Kazakhstan and Kyrgyzstan on how free economic zones and industrial parks are currently developing and will develop with the help of international donors. During the second phase, from September 2016 until summer 2017, these studies will be completed and we will prepare a strategic policy framework to assist the two countries in addressing and tackling potential challenges and problems. During the final stage, in September 2017, we will present the project results at a general forum, workshop or seminar.

Two international and two local consultants have been recruited to draft the studies and strategies, one national and one international each for Kazakhstan and for Kyrgyzstan. The material will be ready by the end of July 2016.

From our national consultants and our local offices and representatives in Astana and Bishkek we know that these countries already have legislation in place in several areas. What unites free economic zones, special economic zones, high technology industries and industrial parks is that they all have a special law that specifies rather liberal rules and beneficial customs procedures. This law also sets specific trade and investment rules, and its main leitmotiv is tax incentives (tax exceptions) and usually everything is managed by a single operator. Kyrgyzstan was one of the first countries to adopt this legislative framework. The law on free economic zones dates from 1992, and after gathering sufficient positive and negative experiences, a new law was adopted in 2014. There are currently five free economic zones in the country, two of which operate successfully.

In the first step of establishing a free economic zone in Kyrgyzstan, the local government of the region or province initiates plans for a special economic zone (SEZ), and submits the proposal to the local parliament. Once the local parliament has given its approval, the proposal is passed to

the Minister of Economy who drafts and submits the necessary legislative or regulative act to the national parliament. Once passed, the Minister of Economy establishes a special directorate that is responsible for developing all legal and regulatory acts (all secondary legislation, regulation and recommendations) for the effective functioning of these special economic zones, such as tax incentives and other fiscal preferences.

As of 1 March 2016, the consultants had identified that production in and export from the SEZs substantially contributes to economic development in the country. The total share of imported goods in the SEZ is quite substantial, which in practice means that these imports are not serving as export creation and are sold domestically. This could indicate that some of the residents who are registered in SEZs are not using the legal preferences provided by the SEZ solely for manufacturing purposes.

Kyrgyzstan has advanced in the field of high technology parks (HTPs). Five years ago, a law was passed on the development of HTPs, which differ from SEZs, allowing enterprises in HTPs to engage in only three types of activities. HTPs are managed by a special steering committee consisting of nine members; three members assigned by parliament, three by the prime minister, and three by the special association of high technology producers. Only the prime minister can appoint the chairman. As with the other types of industrial parks, the legislation allows some tax preferences and exemptions for HTPs. This legislation has certain positive and qualitative requirements imposed to stimulate enterprises registered in HTPs. Besides the stimulus, it has requirements for enterprises as well.

At present, the main requirement is that 80 per cent of all manufactured goods and services should be exported, and after reporting at least 80 per cent income from these exports, these preferences can be granted. There is currently only one HTP, with 12 registered residents and about 100 staff members at the initial stage. Nevertheless, there have been some positive results. The market that these residents searched and created allows them to export mainly to the Russian Federation and Kazakhstan.

Additionally, Kyrgyzstan has legislation on SEZs. Recently, Kyrgyzstan began drafting a separate law on industrial parks. This legislation identifies three types of industrial parks: greenfield industrial parks (industrial parks that are built on land that has not been used before), industrial parks (based on already developed land) and integrated parks (which have infrastructure, warehouses and specific workers available), but there is great capacity and room to improve industrial parks based on worldwide standards and best practices. Similar to the HTPs, these three types of industrial parks will also be given legislative preferences. They will be expected to be built up with the help of three parties: NGOs, experts and government officials.

**Mr Zaur Mammedov**, Sumgayit Chemical Industrial Park (SCIP)

You mentioned special incentives for resident companies of free economic zones; for how many years will these preferences be granted?

**Mr Nariman Mannapbekov**

There are some sunset clauses. Our consultants discovered that these sunset clauses have been used by some for mercenary goals as well as for personal reasons. We will disclose these facts at the end of the year. As per agreement with the government after the forum in Islamabad in September, all the studies will be uploaded to the CAREC website. There you will find sunset clauses for each type.

**Mr Niyazi Safarov**, Deputy Minister of Economy of the Republic of Azerbaijan

I would like to comment on abuses to the incentive system. Resident firms can import equipment to industrial parks exempt of customs duty and VAT. At the same time the park management imposes strict controls on imported equipment, which undergoes checks to verify that that it is destined for use in the park. If irregularities are found, then the equipment cannot be brought into the park. These control procedures help to prevent any violations of the park regulations.

Parks aim to attract competitive enterprises with advanced technologies and management structures. After a period (3, 6, up to 12 months), the managing company checks that imported equipment is being used appropriately, according to firms' activities and within the scope of park. We have special rules for monitoring activities in the park. We issue supporting documents that are submitted to the customs and the tax authorities for VAT and other duty exemptions.

**Mr Nariman Mannapbekov**

The UNIDO and ADB projects are mutually supportive. UNIDO and ADB will assist each other by sharing information and findings.

**Mr Oleg Pecheinuk**, Independent Ecological Expertise, Kyrgyzstan

I have some comments on violations at the re-export stage. In Kyrgyzstan, it used to be sufficient for a textile company to stick buttons and labels on a product, or repackage food and vegetables, to qualify goods as reprocessed for export. Under the economic zone framework, if imported raw materials are reprocessed in free economic zones or are stored for one month, they are classified as a domestic good. The main goal is to deceive the monitoring bodies in the economic zones. The challenge that we face is reforming the legislation on free economic zones.

**Mr Nariman Mannapbekov**

Kazakhstan has established ten specific economic zones (as they are known). The law was adopted in Kazakhstan later than in Kyrgyzstan, in 2011, and amended in October 2015. The major amendment established a company called KAZNEXTINVEST within the Ministry of Investment and Development to coordinate the work of the specific economic zones. In

Kazakhstan the specific industrial zones are different from FEZs, HTPs and industrial parks, in that no specific legislation covers them. The Government does, however, provide some support. Four governmental bodies at the national level are involved in regulating the establishment of specific economic zones, as well as those at the local level.

Research conducted in Kazakhstan and Kyrgyzstan could help with the similar studies in the other four countries. After completion of these studies, a network of industrial parks or free economic zones could be built, allowing for the exchange of experience and practice on the strengths and weaknesses, and can be built up further to foster trade alongside the corridor.

### **Mr Niyazi Safarov**

In my welcome speech I underlined that Azerbaijan enthusiastically supports this project. The President of Azerbaijan is implementing multi-sectoral and multidimensional policy based on economic cooperation, including in industry. Our country pays great attention to cooperation with the UN organizations, especially with UNIDO. We have signed a framework agreement with UNIDO. The Government is undertaking measures to implement this agreement and we are in regular contact with our counterparts.

Azerbaijan is initiating several transnational projects, particularly in the field of energy. Since independence, we have been actively cooperating to promote international transport corridors. Our energy projects are critical to multidimensional infrastructure initiatives, which also aim at developing transit corridors and building up logistic hubs.

Projects like TAP and TANAP are essential for promoting and fostering cooperation between our country and our counterparts along the historic Silk Road. In 1998, initiated by our nation's leader, Heydar Aliyev, Baku hosted the *TRACECA<sup>1</sup> – Restoration of the Historic Silk Route* conference, resulting in a multilateral agreement. We are intensifying our initiatives and activities to develop international transport corridors in this direction. I believe that strong economic growth and the developing of transport corridor capacity in the countries along the Silk Road are mutually dependent.

Sustainable and multidimensional industrial development is at the core of economic development and we are keen to further cooperate with UNIDO in this area, particularly through the establishment of industrial parks and zones. In 2014, the President of Azerbaijan launched the state programme on industrial development covering 2015-2020 and, as part of the implementation of this programme, we have been directed to further develop and intensify industrial parks and zones.

Azerbaijan has developed a systematic approach to establish, organize and administer parks, introduce incentives and build favourable investment and business climates within the parks. Not

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<sup>1</sup> Transport Corridor Europe-the Caucasus-Asia

only has this approach contributed to industrial activities within these parks, but it has also created synergies within industry outside the parks. Initially, we intended to develop specific economic zones, but practice and international experience underlined the importance of building up industrial parks with a universal profile.

We have benefitted from international experience in setting up and managing parks. Our first industrial park, Sumgayit Chemical Park, has seven registered residents, all chemical producers. Industrial parks are designed to foster competitiveness without harming industrial activity outside the parks - an important consequence to consider during the planning stage. In this respect, planners must balance the impact on industrial sectors both within the park and in the wider region.

In Azerbaijan, parks support enterprises in high technology, innovative and export-oriented sectors. With the aim of import substitution, parks are designed to facilitate activities along the entire value chain, from processing of raw materials to the final product. Neftchala was the first industrial site established under the President's initiative in a region traditionally oriented towards the petrochemical sector. We are now beginning to build up industries that will create synergies within the region and in neighbouring regions.

We are keen to cooperate with neighbouring countries in Central Asia and with the Russian Federation, Iran and Turkey. In recent years Azerbaijan and Iran have intensified bilateral economic relations and, as an export-oriented facility, Neftchala Industrial Site will serve as an important instrument to further strengthen this trade. Investment is planned in vehicle production, further supporting the development of the regional economy. Through industrial parks we are also addressing our long-term objective of developing the NSREB. The exchange of experiences among countries along the NSREB, as well as knowledge, will help us to diversify our economy and overcome challenges.

UNIDO has contributed significantly to developing bilateral and multilateral cooperation. Forums such as this provide platforms for cooperation and discussion. Today's workshop is a valuable contribution to dialogue on inclusive and sustainable industrial development and to building up industrial parks and zones.

**Ms Olga Memedovic**, Officer-in-Charge, Office of Strategic Planning & Coordination, UNIDO

The historic Silk Road connected Asia with Europe through trade and cultural exchange. There is now a strong vision to boost trade and industrial diversification and develop local comparative advantage through an intense network of infrastructure. The historical significance and rich traditions of the Silk Road are also assets for tourism in the region. The international community, including Azerbaijan, has committed to implementing the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals. Through Goal 9, the Member States of the United Nations call upon the international community to "build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation."

I have already described the nexus between industrialization, infrastructure and innovation, so I will just say that it is also in line with UNIDO's mandate. UNIDO Member States renewed UNIDO's mandate to pursue inclusive and sustainable industrial development at its general conference in Lima in 2013.

The NSREB project was initiated in 2013 at a round table on the Eurasia Economic Growth Belt held in Urumqi, China, during which it was proposed to explore the role of these instruments in deepening regional integration. UNIDO immediately began discussions with the Asian Development Bank (ADB) to align the project with the CAREC Programme. It was agreed that the ADB would concentrate on two countries, Kazakhstan and Kyrgyzstan, while UNIDO would focus on Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan. Both projects would adopt the same methodology and framework. In the meantime, UNIDO is supported by the Government of China in another project on *Promoting ISID along the Maritime and Continental Silk Road*. The Government of China is a donor for the UNIDO projects and, while our counterparts are the ADB and the CAREC Institute, we invite other development financial institutions to join us.

The UNIDO and ADB projects have common objectives, which include strengthening economic ties within the region, contributing to the 2030 Agenda for Sustainable Development and its goals, and fostering inclusive and sustainable industrialization. Studies from the ADB, as well as studies from the CAREC Programme, show that infrastructure is a precondition for achieving these objectives.

UNIDO's objective is to support diversification and competitiveness in the participating project countries. Our goal is to establish a knowledge sharing platform and to produce detailed background studies. To these ends, international and national consultants will work with counterpart institutions in the participating countries to collect and analyse available information. The findings of these studies will be discussed at regional workshops.

The knowledge sharing platform will build awareness of best practice in establishing and managing SITPs and zones. We believe that policies should be informed properly and that the mistakes experienced in other countries should not be replicated. As we know, the Government of China has more than 140 industrial parks and zones, with some being more successful than others. Many developing countries are counting on these instruments and can also learn from our experiences.

The background studies will address issues related to SITPs in Central Asia, and methodological aspects of industrial agglomerations, such as infrastructure, utilities, transports and logistics, and regulatory and policy measures. The studies will cover the specific requirements when parks have a sectoral focus; the associated infrastructure required for agro-industries or metallurgical complexes, for instance. The role of different economic actors — the government, local authorities and also the public and private sectors — is extremely important. We also intend to look at ecological aspects, eco-industrial parks, sustainability and inclusiveness. In the latter case, SITPs should facilitate the participation of marginalized groups in productive sectors — this aspect will also be covered.

**Mr Kubat Umusakov**, Director of the CAREC Institute

From an initial portfolio of six transport projects worth US\$ 247m in 2001, by 2015 the CAREC Programme had grown to 166 projects in four priority areas valued at US\$ 28bn. During this time, over 11,000km of roads and more than 1000km of railways were constructed, and 300km of railways upgraded. Trade facilitation is another priority area. Border crossing times have been reduced from an average of 8.9 to 5.6 hours thanks to trade facilitation measures. Measures to simplify, automate and modernize customs are making progress. In the energy sector, investment in power generation and connectivity is addressing uneven distribution and variations in power supply, and is promoting cross border trade in electricity. In trade policy, measures are promoting WTO accession and post-accession trade openness.

In 2011, the 10-year *CAREC 2020* strategy was adopted with two key objectives — expanded trade and increased competitiveness. To achieve these goals, the strategy outlines three operational priorities: (i) the four core sectors of cooperation — transport, trade facilitation, trade policy, and energy; (ii) economic corridor development; and (iii) the CAREC Institute.

In terms of the transport and trade facilitation strategy, the priority investment programme in four areas (rail, road, logistic centres and border-crossing points) includes over 100 projects at an estimated cost of over US\$ 43 billion, of which 48 are ongoing and seven were completed in 2015. Targets include: the construction or improvement of 7800 km of roads; the construction of 1800 km of railways and the upgrade of a further 2800 km; the operationalisation of five logistics centres; and the completion and improvement of five border crossing points with improved capacity, infrastructure, equipment, and coordinated management.

Progress has been swift. The 2020 roads target had almost been achieved by 2015. The railway targets (construction and upgrading) have already been surpassed. Two logistics centres are now operational. Trade and border crossing services have been improved in terms of coordinated border management, customs modernization, single windows development, and integrated trade facilitation, among others. At border crossing points, activities are underway to improve effectiveness in road safety, road asset management, transport facilitation and railways. In 2016, the CAREC railway strategy will be finalized and approved. A CAREC road safety strategy is under preparation. Progress in the six priority transport corridors has been steady; in corridors one and four, over half the targets for road and rail construction have been met.

CAREC's original focus on transport corridors was designed to improve domestic transport networks. The next step is transit corridors to facilitate cross border transport connectivity and the flow of goods. From there, the next step is the development of economic corridors, how physical infrastructure can catalyze and spatially organize economic activity to generate productivity and growth. The prerequisites for economic corridors are economic potential, a high level of political commitment, strong role of the private sector in both conceptualization and implementation, institutional mechanisms to coordinate diverse stakeholders, comprehensive

macro- and sector-level analysis, and a long time horizon for implementation. In recent years, CAREC has moved ahead in economic corridor development, starting with one pilot initiative – the Almaty-Bishkek Corridor.

In 2014, city administrations signed a memorandum of understanding based on which governments established a joint working group. During the first phase (2015–2016) this working group identified important areas for future work, including coordinated long-term urban planning, agriculture, education, health services, tourism, and infrastructure and logistics development. To date, four meetings of the joint working group have been held, potential investment projects have been identified, and an action plan for the governments and other stakeholders is under preparation.

The mission of the CAREC Institute is to enhance the quality of the CAREC Programme through knowledge generation and capacity building for effective regional cooperation, towards the goal of accelerating economic growth within the region. The CAREC Institute implements the CAREC project on industrial development through industrial zones and industrial parks.

#### **Mr Iskender Aliyev**

Does the CAREC Programme include Azerbaijan? Who funds the CAREC Institute and its programmes?

#### **Mr Kubat Umusakov**

The CAREC Institute was initially managed from ADB headquarters until an office was established in Urumqi in 2015, funded by the Government of China. The Institute's activities are financed by and organized jointly with the ADB.

More research is needed to understand Azerbaijan's current and potential role, not only within the CAREC Programme, but also within interregional and global corridors. Preparations for the 2017 operational programme are underway and this workshop has facilitated discussions with Mr Gilayat Aliyev, Director of the Azerbaijan Institute of Economic Research. CAREC will explore the future role of Azerbaijan within the programme, particularly in the development of economic corridors.

#### **Mr Ralf Bredel, UNIDO Representative in China**

UNIDO's Maritime and Continental Silk Road (MCSR) initiative is the second phase of a project<sup>2</sup> under the umbrella of the Maritime and Continental Silk Road Cities Alliance, a joint initiative of five UN agencies (UNDP, UNOSSC, UNIDO, UNESCO and UNWTO) together with the Government of China. The project was created in response to expressions of interest from over 50 countries to

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<sup>2</sup> The first phase of the project established policy guidelines for setting up eco-industrial parks.

revitalize the Silk Road. The ten founding members of the Alliance (six cities from China and four from Cyprus, Iran, Mongolia and Turkey) subscribe to the “Quanzhou Consensus”, which outlines the aim of creating platforms for cooperation, exchange of knowledge and lessons learned, and networking among countries. The Alliance was launched in Beijing in September 2015 by 30 countries. The MCSR complements the project we are kick-starting today. In terms of country coverage, it includes and goes beyond Central Asia and the Caucasus. The five participating UN agencies have committed to develop an action plan based on their comparative advantages. The MCSR represents UNIDO’s contribution.

The project’s objective is to strengthen economic integration through networking and institutional capacity building of MCSR cities through ISID, focusing on green industrial growth patterns and eco-industrial parks (EIPs) through awareness raising and capacity building. The MCSR project focus on green growth, green industrial growth and eco industrial park development reflects the importance of greening for all countries along the Belt. In its ‘Visions and Actions’ document for building the Silk Road, the China Council for International Cooperation on Environment and Development (CCICED) - a think tank and high level advisor to the Chinese State Council – stresses environmental issues and highlights the importance of green industrial parks.

Over the last decades, countries have failed to decouple industrial growth from environmental degradation. This is a strong argument within the One Belt, One Road initiative – to look at green issues from the outset. Through its network of cleaner production centres in various countries, UNIDO has been working with enterprises for 12 years, and has recently strengthened its approach to the issue of resource efficiency and cleaner production. UNIDO plans to increase the impact of this long-standing programme by working at the industrial park level. This will be particularly relevant for China, where special economic and technological development zones have been instrumental during the country’s economic transformation over the past 30 years. There are now some 1600 parks in China and the objective is to transition from industrial parks to eco-industrial parks.

During the precursor project, UNIDO awarded green industrial park status to three pilot technology parks (including Urumqi Economic and Technological Development Zone). The main partners of the current CMSR project will be cities, research centres and think tanks, chambers of commerce and other associations, and governments. From the region, the Chamber of Commerce and Industry of Uzbekistan has already joined the project.

The main implementing entity within UNIDO is our South-South Centre for Industrial Cooperation, based in Beijing. The main activities within the project are providing certification of green industrial parks, organising study tours and exchange visits from different cities, holding conferences, workshops and trainings, and engaging in policy research. We organised a training in November 2015 on green industrial parks. In June 2016, the first MCSR cities forum will be held in Fujo city, with a dedicated session on Green Industrial Parks.

From 17-21 October 2016, UNIDO will host the “One-Belt One Road City Highlight Exhibition and Forum” to showcase and share best practices. There will also be matchmaking sessions between cities and business stakeholders and thematic sessions on cities and eco-industrial parks.

The scope of the MCSR project encompasses all countries within the One Belt One Road initiative, from Central Europe to South East Asia. The overall objective is to contribute to economic diversification and structural transformation in the countries of coverage. Complementarities with the NSREB project include:

- Policy Guidelines for Eco-industrial Parks (MCSR) can inform policy support for industrial park development (NSREB/ADB)
- MCSR Cities Alliance open to cities from Central Asia and Caucasus under NSREB/ADB projects
- Analysis of general trends in industrial park development and how they foster integration into regional value chains (NSREB/ADB) relevant beyond Central Asia (MCSR)
- Decision making tools developed under the NSREB/ADB projects can concretise the vision developed under the MCSR project

## **Panel session 2: Presentations by participating countries**

*Moderator:* Mr. Rufat Mammadov, President, Azerbaijan Export and Investment Promotion Agency (AZPROMO)

*Speakers:*

Mr. Almaz Sazbakov, Deputy Minister of Economy, Kyrgyzstan

Mr. Vilayat Valiyev, Director of Economic Reforms, Scientific Research Institute of the Ministry of Economy, Azerbaijan

Mr. Bakhtiyor Bakiyev, UNIDO project focal point for Tajikistan

Mr. Myratgeldi Berdiyev, Head of Department of Industrial Sectors Development, Ministry of Economy and Development, Turkmenistan

**Mr. Rufat Mammadov**, President, AZPROMO

This panel will discuss the experiences of countries in the region in industrial development and industrial parks.

**Mr Almaz Sazbakov**, Deputy Minister of Economy, Kyrgyzstan

Given the relatively small size of Kyrgyzstan’s economy it is important to promote international trade and integration. Forecasts show that the flow of capital and goods will be concentrated in the US, Europe and China, as well as South East Asia, meaning that other regions and countries will need to maximize their strategic locations as bridges between these large markets. This goes for Kyrgyzstan and neighbouring countries. One practical mechanism to strengthen regional

cooperation is the CAREC programme, a regional initiative of ten countries. CAREC countries have formulated a shared vision and strategy for regional partnership that will transform industries and stimulate growth.

In 2011, CAREC countries agreed *Strategy 2020* and the programme is being implemented successfully. The *Strategy* focuses on two complementary objectives, trade facilitation and competitiveness through projects to improve infrastructure, transport and logistics. In this context the development of industrial parks supports these transport corridors. Since Kyrgyzstan is just starting the implementation phase it is important to learn about the development of industrial parks, with the support of the ADB and UNIDO.

Kyrgyzstan has five free trade zones, the largest - with 380 companies – is in Bishkek. Four of the zones are located close to adjacent regions in Tajikistan, Kazakhstan and China. These free trade zones have enjoyed limited success. Legislative amendments have created uncertainty for investors and the zones are often poorly administered. Most zones lack infrastructure. In addition, the zones have political rather than economic objectives. The Government is considering legislative reform and administrative reorganisation to improve efficiency of the zones. It is thus important to hear experiences from other countries in establishing industrial parks.

In 2013, Kyrgyzstan adopted a law to establish a high tech park. Currently there are a dozen registered residents working in IT programming technical support, and call centres. With the help of the ADB we have been working with a group of experts from India to learn about the experience of Bangalore and lessons that can be applied to Kyrgyzstan. There are also plans to establish a technopolis. Recently, a deal worth US\$ 80 million over the next three years was signed to inaugurate a textile production factory.

**Mr Vilayat Valiyev**, Director of Economic Reforms, Scientific Research Institute of the Ministry of Economy, Azerbaijan

Revenues from Azerbaijan's oil industry have been used to promote diversification of the economy, develop competitive industries, and create knowledge based and innovative sectors. Azerbaijan has several parks, including Sumgayit chemical industrial park, Balachnik industrial park, Karabach industrial park, as well as industrial zones. There are plans for agro-industrial parks. Different policy documents have been adopted. First of all, *Azerbaijan 2020* outlines major development targets. The *Programme on Industrial Development 2015-2020* focuses on value chains and regional social economic development. There is also the 2014–2016 programme on the development of Baku and neighbouring regions, and a state programme on the development of refineries, which is the first separate programme addressing the current poor state of refineries. In March 2016, the President issued an executive order on the development of a strategic economic roadmap. The President has also regularly reiterated that Azerbaijan is on the brink of large scale comprehensive reforms.

Countries have a broad range of instruments at their disposal to promote economic development,

such as tax and customs duties, and investment promotion. Industrial parks benefit from exemptions of customs duties, VAT, land and property tax for seven years. Other incentives include availability of raw materials, and transport and energy infrastructure. A business friendly environment and access to finance also stimulate industrial development.

The opportunities for regional cooperation are vast. Central Asia is an interconnected region rich in resources. The countries participating in this project have huge energy capacity. Central Asian countries have to speak with one voice in international markets, and transition from resource-based into fully fledged market economies. The workforce and scientific capacity offer huge potential.

It is difficult to make decisions without research and economic models. An overall regional perspective could help countries identify industries and clusters, and the potential for value chain development. In terms of regional cooperation, we need economic models to calculate the potential for joint activities. Another important issue is cooperation between educational institutions and industries. Without links between universities and industry human potential will not be maximised.

**Mr Bakhtiyor Bakiyev**, UNIDO project focal point for Tajikistan

Tajikistan is located in Central Asia bordering China, Afghanistan, Uzbekistan and Kyrgyzstan. The population is 8 million people, of which 76 per cent live in rural areas. The main industrial zones are hydro energy and light industry.

In 2015, GDP growth was 6.7 per cent. The labour potential of Tajikistan people is 2-3 million people. Agriculture represents almost 25 per cent of the economy. Exports in 2015 were worth USD 890m, mainly cotton, ore, oil and textiles to Turkey, Iran, Afghanistan, Kazakhstan, Italy, Bangladesh, China and Russia. Imports were USD 3.4bn for 2015, including oil and gas oxide and food products. The trade deficit in 2015 was therefore about USD 2.5bn. Foreign Direct Investment (FDI) rose by 20 per cent in 2015 compared to the previous year to USD 470m. China, the UK, France and Russia are the top investors. Tajikistan's resources are important for FDI and economic development.

The priority sectors for the economy are the chemical industry, agriculture, tourism, transportation and communications. The New Silk Road will facilitate improvements to regional infrastructure, the removal of trade barriers and improved cultural communication. The national development policy for the next 15 years was adopted at the end of May 2016.

Turning to industrial parks and zones in Tajikistan, there are four economic zones in the north and three in the south. The zones enjoy tax preferences, as in other countries. There are 63 companies pending approval and thirty of them are foreign. Companies operating in these territories engage in different types of industries - textile, agricultural, pharmaceutical and construction material production. These companies export to neighbouring countries.

**Mr Myratgeldi Berdiyev**, Head of Department of Industrial Sectors Development, Ministry of Economy and Development, Turkmenistan

Turkmenistan is developing dynamically; between 2008 and 2015 GDP grew 2.5 times. Economic reforms have spurred the development of construction and transport sectors. The investment priorities are economic diversification, development of export-oriented industries, import substitution and increased living standards. The State Programme for Economic Development 2017 – 2021 - currently under consideration – gives the development of rural and urban areas in each province equal importance. The intention is to attract foreign investors through simplified registration procedures for firms and by bringing local and national legislative frameworks in line with international standards.

The transport system is essential for economic development and regional integration. In the last two decades Turkmenistan has prioritised the development of transport corridors, nationally, regionally and globally- road, rail, maritime and aviation networks, as well as pipeline systems. New railway infrastructure will allow Turkmenistan to become the regional transit hub. Further maritime, road and air transport projects are in the pipeline, which will lead to a new level of the cooperation between the countries of Asia and Europe.

Turkmenistan is integrated in the CAREC programme. In 2013, Ashgabat hosted different international scientific conferences. President Gurbanguly Berdimuhamedow is committed to the New Silk Road and the United Nations project.

**Mr Rufat Mammadov**

The opportunity to hear countries' experiences has highlighted commonalities, such as the presence of natural and energy resources and the need for interconnected transport infrastructure networks. It is useful to have a strategic vision for industrial development. As Mr. Nazabakov mentioned, this vision should be based on sound research and analysis of capacities and opportunities.

### **Panel session 3: Best practice in establishing and managing industrial parks, zones and cities**

Moderator: Mr. Luc Sollier-Bresset, Senior Industrial Zones Specialist, UNIDO

Speakers:

Mr. Luc Sollier-Bresset, Senior Expert on Industrial Parks

Mr. Zaur Mammadov, Deputy Director of the Sumgayit Chemical Industrial Park LLC

Mr. Sanzhar Kettebekov, Almaty Tech Garden, Kazakhstan

Mr. Oleg Pecheinuk, Independent Ecological Expertise, Kyrgyzstan

Mr. Oktay Mammadov, Board Member of the Tamiz Shahar OSC

#### **Mr Luc Sollier-Bresset, Senior Expert on Industrial Parks**

There are two approaches to the development of industrial zones and parks. The first is endogenous, involving local public and private (particularly companies) actors. These actors can stimulate the business environment, encouraging potential entrepreneurs and business creation. They can strengthen existing companies in the park or zone by consolidating and optimizing their know-how, and helping them to diversify and innovate. Tools they can use include science and technology stimulation, technology transfer and business support, and guidance and training, among others. The second exogenous approach focuses on increasing the attractiveness of the park to potential investors and entrepreneurs from outside through promotion activities and various support services.

There are three categories of stakeholder: i) government actors, for instance policy makers; ii) operational actors, such as business incubators and research laboratories; and iii) intermediate actors, including regional development agencies and higher education institutions. The effectiveness of a park will depend on the capacity of these stakeholders to assess challenges, and define and implement their strategy taking advantage of the specific skills of each actor.

According to OECD recommendations, policy makers should focus on six critical elements; type of zone to be developed, policy framework, incentive framework, regulatory framework, institutional framework and physical development/management.

In terms of the type of zone, planners have several choices to make regarding location, industrial activity (small businesses servicing large firms or one industrial sector, e.g. pharmaceuticals), and type of businesses (e.g. start-ups and SMEs). These decisions influence linkages with innovation and entrepreneurship actors such as business incubators and universities. Other critical aspects to consider include a preference for domestic- or export-oriented firms, and the type of governance structure (public or private or public-private partnership). A current trend is for greater involvement of the private sector in the planning, management and development of zones. A further question relates to the kind of partnerships between industry and research institutions and what incentives to adopt.

Parks and zones offer a range of incentives for firms. The main types are financial support, reduced rents, facilities and professional services, and social and environmental services. Tax incentives are also common, but can create opportunistic behaviours from beneficiaries, and objections from other economic actors.

The authorities must address the regulatory framework, namely laws on zones and park with provisions for: structure, powers and functions of the regulatory authorities; clear definitions; principles of establishment and institutional arrangements; autonomy of the authorities; legal attributes; sources of funds, tax status and contractual arrangements between government and developers; obligations of operators and enterprises; tenants selection criteria; incentives, privileges and benefits for developers and enterprises; environmental protection principles and policies; and dispute resolution procedures.

There is no single institutional framework for industrial park and zone regulation, e.g. units within ministries of industry and trade, autonomous regulatory authorities, state/provincial/municipal governments, inter-ministerial committees. Evolving from a single public body through the involvement of the private sector encourages public private partnerships. Best practice shows that the park or zone authority must have sufficient autonomy underpinned by the law. An independent board composed of representatives of key public and private sector representatives can maximise efficiency. A one-stop-shop should be set up in every example. Non-core functions and services should be outsourced and privatized as much as possible.

Planners should consider the strategic location of the park or zone (e.g. along the NSREB), the availability of raw materials, a skilled workforce, research centres and universities, specialized subcontracting clusters (e.g. mechanics and textiles), and transport infrastructure. It is also important to consider capacity for expansion, land ownership (for instance, whether foreign actors can own land), utilities (power, water, gas, waste and telecommunications), the quality of the environment, and the quality of economic and social services.

Industrial zones and parks have possible negative impacts. To preserve natural resources and reduce the environmental impact, the management should adopt a sustainable environmental approach. In this regard, there are two important standards: The ISO 14001 certification: international standard on environmental management, and the Eco-Management and Audit Scheme registration on environmental performance of enterprises. Parks and zones should control and optimize energy consumption and develop renewable energies. They should encourage the construction of eco-designed buildings and prepare and implement a waste management plan, reducing the quantity at source, optimizing waste collection and sorting, and recovery and recycling of materials. Sustainable management of water and biodiversity and other risks and pollution are also important.

Other potential risks are a concentration of economic support and isolation of park from wider the economic and social environment. Planners should seek to prevent parks and zones crowding

out other recipients of economic aid and preserve economic diversity by avoiding sectoral or technological elitism. Further, harmonizing tax incentives inside the park or zone with the national tax system will help prevent socio-economic imbalances by integrating the park within society and society within the park, for instance, avoiding dramatic increases in house prices by anticipating the impact on new housing needs.

**Mr. Zaur Mammadov**, Deputy Director of the Sumgayit Chemical Industrial Park LLC

Established by presidential decree in 2001, Sumgayit Technology Chemical Park (STCP) was the first of its kind in Azerbaijan, founded in an area with a petrochemical industrial history going back to the mid-twentieth century. The park aims to support competitiveness and entrepreneurship, promote advanced innovative technologies, create jobs and attract foreign investment. STCP was planned according to best practices taken from industrial parks in Germany, the United Arab Emirates, Turkey, South Korea and Japan. Companies in the park produce a range of goods; steel and polyethylene pipes, man holes, polypropylene, polyethylene, glass, cement, ferrous alloys, lithium and magnesium. A Swiss company is producing building materials. The Sumgayit management company is responsible for two other industrial parks, one focused towards the shipbuilding industry and the other textiles and light industry.

To ensure economic sustainability, enterprises wanting to enter the park must satisfy a strict set of criteria. They should demonstrate an impact on local job creation and investment attraction, and be oriented towards the export of manufactured goods, which is particularly important given the small size of the domestic market. Within the park firms enjoy a number of benefits, including a seven-year tax holiday. In terms of environmental sustainability, Sumgayit was once a heavily polluted city, but we have done much to clean up affected areas, for instance by removing polluted soil.

The park has a light management model. The Ministry of Economy, in cooperation with other stakeholders, manages administrative matters and issues certified documents exempting residents from taxes, VAT and customs duties. Residents provide quarterly and annual reports and the management conducts due control and monitoring activities. To date, there have been no cases of companies breaking the rules.

A particular strength of the park is its geographical location. Azerbaijan is on the crossroads of the ancient Silk Road. The novels of Marco Polo refer to Baku and there were many *caravanserais* [inns] in the country. Today, Azerbaijan is a natural geographical bridge connecting Europe and Asia. Major infrastructure projects come through Azerbaijan.

Given its location Azerbaijan is attractive as a regional hub, with accessibility to markets like the Russian Federation, Kyrgyzstan, Kazakhstan, Turkmenistan, Iran, Turkey and Georgia. We have commercial agreements with all the CIS countries and free trade relations with Georgia. Turkey is an important trading partner and we are deepening commercial links with Iran.

Other advantage of our park is a developed infrastructure. From the concept stage of the park

infrastructure and advanced technology were prerequisites. Companies can plug in and connect to communications, electricity, gas, water and sewage systems. In terms of transport, Sumgayit is connected to rail, road and port infrastructure. The park tries to address all the challenges that face residents. It is possible to load and unload goods easily. There is a logistics centre, a customs post, bank and railway office, all of which facilitates registration of incoming and outgoing goods. There is a certification body to ensure the products meet international standards such as ISO. A single window exists for residents to support with required documents and certificates. Being part of the Ministry of Economy helps to solve all issues.

A recent trend in industrial parks and zones is the inclusion of administrative, residential and social facilities. At Sumgayit, the main administrative building has additional offices that can be rented by enterprises at lower than market rates. These administrative buildings also have a science and technology centre that promotes knowledge transfer and entrepreneurship. It is important to promote linkages between science and industry and to apply scientific knowledge to production lines. The park has meetings room, a boutique hotel, restaurants and other catering facilities. A vocational school

There is a scientific innovation, such occupational school, vocational school, which will develop chemistry, construction, and the and here will be trained the students on 36 disciplines. We are in the process of retraining teachers and translating German textbooks into Azerbaijani. We plan to introduce a system of diploma certification. Leading universities and technology schools in Azerbaijan, such as the University of the Caucasus will set up an institute of polymers in the Sumgayit state university.

Our partners are the Azerbaijan Investment Company and the Caspian International Investment Company, as well as private investment foundations. The park offers an attractive portfolio of incentives to the residents; seven years exemption from income, land and property taxes, and VAT and customs duties on the import of technology equipment and machines.

Another incentive is the ready availability of chemical resources. Azerbaijan is rich in oil and gas. The state oil company – SOCAR - produces a wide range of the petrochemical products. The oil gas petrochemical complex planned for 2020–2023 will produce about two million tons of polymers and will refine more than one billion cubic metres of gas annually.

**Mr. Sanzhar Kettebekov, Almaty Tech Garden, Kazakhstan**

I want to talk about a new pilot project based on the existing special economic zone, the Park of Innovation Technologies. I will talk about lessons learned in the development of the economic zone, how we want to connect the city with this economic zone and how these together contribute to Kazakhstan's innovation ecosystem. Second, we will talk about public-private partnership projects and show concrete examples how, and according to which principles, we were able to attract transnational companies.

We took the idea of a smart specialization as the basis of our transformation. In this regard, EU has its own smart specialization platform - S3P. In brief, smart specialization is not a centralized decision on which sectors to develop, but rather the government support areas that are in demand, taking into account its competitive advantages. Until last year the park was a Special Economic Zone. This year, we are finalizing the construction and infrastructure covering 142 ha. Sixty-five per cent of the companies have IT focus, including services for energy, logistics, steel and mining sectors, and others. We also have in place a standard package of social, corporate and others benefits.

Despite growth in terms of income level, economic zones continue to face problems. The first is low competitiveness in terms of a lack of export orientation. A second problem is the lack of big anchor companies. Using our new approach we successfully connected Almaty with the SEZ, which is located around 30 km away from the city. Almaty is largest city in Kazakhstan with 50 high colleges and universities and 70 national laboratories. We tried to consolidate and direct this potential to the development of the SEZ. An autonomous cluster fund was established by government decree based to support innovative projects. Today, we connect with over 40 universities and R&D laboratories.

We set up incubators last year to concentrate on a new wave of companies, as well as attract well-known companies. To date, we have worked with 27 companies, 15 of which have graduated from the acceleration programme and seven have succeeded in raising capital. One company raised USD 2.9m. But we have yet to see a sufficient inflow of projects. The 27 start-up companies were selected from 1500 applications. In Silicon Valley, the proportion of start-ups that attract capital is one in a thousand. The second problem is low involvement of private capital equity. We tried to solve this problem by inviting transnational companies. This year we launched an initiative together with transnational companies with 50% co-investments for a joint technology centre. We have also started planning the establishment of a competency center on a mining complex together with McKinsey. We are holding discussions with Deloitte, IBM and Nasdaq for a center for financial technologies and a centre for smart technologies.

I will briefly describe our model. To solve the problem of a critical mass of companies we are launching the start-up programme – Start-up Kazakhstan. I would like to invite colleagues to attend the launch ceremony in Almaty in the first half of June, at which President Nazarbayev will participate and launch the programme. Start-up Kazakhstan has two stages of financing. At the first stage we plan to attract 500 projects with funding support of USD 20,000. They will go through the acceleration programme, and will spend an orientation month in USA at the base in San Francisco. At the second stage, the start-ups will receive USD 100,000 in funding, 30% of which comes from the private sources, including international venture funds. At the end of this process we plan to have 50 companies.

Turning to attracting foreign investors it is important to understand why are they coming here and how to work with them. Transnational companies are different in their nature and presence. The majority of companies, such as Microsoft and IBM, are represented by sales offices, which do

not have authority or are not part of the company's development strategy in the country. We identify three types of presence: 1) interest in rare earth metals in Kazakhstan; 2) localization of services, as well as for the regional market; 3) development of new niche sectors, for example when R&D laboratories enter the park.

I will give an example of McKinsey. We developed a technological platform, which has elements of model production, model processing and we added elements of industry 4.0 for the development of the steel and mining sector - the most under-developed sector of economy in terms of innovation. The Competency Centre for Mining started with conducting analysis using sensors to identify shortcomings along the production line. As of 2018 all companies in Kazakhstan must apply international standards for better evaluation and analysis of the resource base. As a result, a model was created from analysis to investment advice for companies. Today there is huge interest in the platform from Huawei, Siemens and others.

In terms of financial aspects, the law requires companies to operate according to international standards (starting from 2018). This helps to estimate the value of companies more accurately. We have connected our financial centre initiative with another SEZ – the International Financial Centre Astana, which operates under British Commercial Law and has 50 years of tax exemption. Private Placement Marketplace was identified as platform for attracting private investments. Currently we together with Nasdaq Private Markets are introducing new systems and technologies, for private investments.

In terms of investment promotion, after analyzing possible instruments, such as VAT, corporate and taxes, we found that they do not stimulate export orientation. We try to solve this problem through the Eurasian Economic Union and the World Trade Organization, and there we try to understand how to build an export-oriented policy. Probably that would be subsidies not the taxation but direct subsidies.

**Mr. Oleg Pecheinuk**, Independent Ecological Expertise, Kyrgyzstan

In all post-Soviet countries imports are substantially higher than exports. We are a resource base for other countries and exports are dominated by unprocessed produced and raw materials. The main export of Kyrgyzstan is gold, exported to Switzerland and the United Arab Emirates. This gold is mainly produced by the company "KUMTOR". Agricultural products are mostly vegetables, fruits, cotton and tobacco. The country's current account deficit is draining international currency reserves. This also means there is potential for import substitution, technology development, and processing of the raw materials.

So what factors influence foreign trade? First are low competitiveness of national enterprises and exports dominated by raw materials that are highly dependent on climate changes and fluctuations in global prices. Hydro energy prevails in Kyrgyzstan and the country has great potential, namely a large number of small rivers and opportunities for the construction of small hydro energy plants. Unfortunately, no hydro energy plants have been built in the last year.

Imports of consumer goods are increasing and there are high levels of unofficial re-exports. Corruption and ineffective governmental structures, as well as differences in statistics of exporting and importing countries are also problems.

In 2014 and 2015 there was a decline in exports, reflecting increased customs and other requirements in the traditional markets Russia and Kazakhstan. We were able to equip laboratories to meet standards on sanitary and phytosanitary requirements but we were not able to prepare businesses for the new requirements. This was a result of outstanding questions of the customs union of the Eurasian Economic Union, such as legal regulations of transboundary shipments, VAT compensation and advance notice on imports procedures, as well as on the definition of transit.

Industrial parks and free economic zones face risks associated with new logistics, processing and production requirements. I would also mention environmental risks. In this regard, another problem is environmental risk assessments of large projects, where one project is divided to smaller ones, and each separately has a low impact on environment, but combined has substantial environmental effects. Such projects are commonly related to transboundary transport.

Several international organizations developed the Equator Principles to assess environmental and social risks. The World Bank accepted the principles to assess environmental and social risks applicable to international financial cooperation. I strongly recommend applying these standards at the design stage. These principles include environmental risks in general and risks for enterprises.

**Mr. Oktay Mammadov**, Board Member of the Tamiz Shahar OSC

Tamiz Shahar, meaning Clean City, is a waste processing plant in Baku. The park was established by Presidential decree and became operational in 2009. The incineration plant generates 10 000 kwh of electricity per year. It is one of the most advanced plants in the world. A rubbish sorting plant is also located in Balachan.

The company is increasing the number of transfer of substation with the packaging of the garbage. We decided to raise the competence in this market segments, we need to invite new residents in this field. This competence, this lacking of recycling of this garbage so this like electronic wastes, this is home appliances, some tires, some hazardous wastes what been generated in the households. This is reprocessing of the accumulators and batteries, medical and pharmaceutical waste. We decided which make a logic to call this industrial park and to create this prerequisites for the entrepreneurs and they will be dealing with such type of activity. We aim at attracting companies involved in the processing of plastics, tyres and electronic waste. The purpose is not to create a large industrial zone but to concentrate in more specific profile sectors of economy.

The general investment portfolio mostly concerns the reprocessing of motor oil and plastic bottles. This recycling of car tires and the reprocessing of carton and packaging materials and also besides are that what been regulated by law to manage waste, we have such definitions of the responsibilities of the producers and we are working in this one or two years such law will be passed. It will be aiming at stimulating the reprocessing cluster and we are much more paying the attention to the public activity, public PR campaign with this in the country will be visiting to our office we are tackling with the university, with the schools and we are actively involved in that type of activities. Because public participation is very important in the managing process of this solid waste.

## Day Two, 5 May

### **Panel session 4: Leveraging assistance to foster inclusive and sustainable industrial development through industrial parks, zones and cities**

*Moderator:* **Mr. Ralph Heinrich**, Acting Chief, Innovative Policies Development Section, Economic Cooperation and Trade Division, UNECE

*Speakers:*

**Mr. Ralph Heinrich**, Acting Chief, Innovative Policies Development Section UNECE

**Mr. Leonid Efimov**, Deputy Head of International Cooperation Department, Eurasian Development Bank

**Mr. Neil McKain**, Country Coordinator, EBRD Azerbaijan

**Mr. Tamerlan Taghiyev**, Field Representative of the Islamic Development Bank Group in Azerbaijan

**Mr. Huseyn Pashayev**, Deputy Executive Director, Azerbaijan Investment Company

**Mr Sherif Muhtaseb**, Programme Manager, Trade & Competitiveness World Bank Group (via video conference)

**Mr. Ralph Heinrich**, Acting Chief, Innovative Policies Development Section, UNECE

I will talk briefly about the work we do on innovation for sustainable development, which is closely connected with the objectives of UNIDO's project.

We work with a network of international experts on innovation and competitiveness from all countries in the UNECE region, including the United States, Western Europe, the Western Balkan, Eastern Europe, the Caucasus and Central Asia. The experts come from ministries of economy, industry, science, etc., from patent offices, investment promotion agencies, enterprise development agencies, the business community and finance, including venture capital associations and business angels associations. There are law firms, which is particularly relevant for this project, and people who manage business incubators, science and technology parks and who are involved in the management and development of industrial clusters.

These experts meet twice a year in Geneva to discuss selected issues of innovation policy and to identify best international practices. Among others, there are conferences on regional innovation policies and on smart specialisation policies, topics that are closely related to this project. The conferences have discussed in depth how to promote business incubators, science and parks and how they support the development of innovative industrial clusters.

Based on this expertise we have projects at the country level and, in particular, a programme of national innovation performance reviews, including in Kazakhstan a few years ago and in Tajikistan last year. These projects are based on invitations from governments. We put together a team of international experts that visits the country analysing innovation policy and innovation performance in light of international good practice. Our experts develop recommendations on how to further improve innovation policy and performance.

The usual conditions are subject to an international peer review, published and then a process of follow up over several years, where we provide additional advice to a government on how they might implement the policy recommendations that they find useful. These reviews cover the whole gambit of innovation policies, starting with the creation of knowledge through science and research to the transfer of this knowledge, its commercialisation, application, and the creation of new innovative products and services on the market.

In brief, we find that the state of development industrial clusters, science parks, etc., depends heavily on policy support. It also depends on the stage of economic development and the resources available. Kazakhstan is relatively advanced, having taken on board international good practice. Tajikistan is at a very early stage.

I have also been asked to talk about the UN Special Programme for the Economies of Central Asia (SPECA), which is a programme that the UNECE and UN Economic and Social Commission for Asia and the Pacific (UNESCAP) manage together. It has seven members: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. It is a governing council and an annual economic forum with six areas of work, including working groups on transport, trade and knowledge based development. At the last governing council in Tajikistan in November, governments adopted a declaration paving the way for the 2030 Agenda for Sustainable Development in the SPECA region. In this declaration, governments invite partners including UNIDO to cooperate with UNECE and UNESCAP in sharing and disseminating good practices and experiences among SPECA countries with a view to accelerating progress on the SDGs. I would like to extend an invitation to our colleagues from UNIDO, and also to other organisations present, to participate in this programme, and to come to the next annual economic forum and present the project, and to see how the SPECA process can contribute.

**Mr. Leonid Efimov**, Deputy Head of International Cooperation Department, Eurasian Development Bank

The Eurasian Development Bank (EDB) is a regional development bank established in 2016 jointly by the President of the Republic of Kazakhstan, Mr Nursultan Nasarbajev, and the Russian Federation. The Bank's mission is to facilitate investment activities of market economies of participating member states, support economic growth through investment activity and the expansion of trade and create favourable conditions for sustainable economic development.

The Bank has a current investment portfolio worth USD 2.2bn, and the cumulative investment portfolio is 4.5bn dollars. In accordance with its strategy, the Bank focuses on financing energy, transport and infrastructure projects, and the efficient use of resources. The Bank also promotes the development of trade and other economic ties between the member states aiming at further closer integration.

In 2010-2013 the Eurasian Fund for Stabilization and Development (EFSD) Council approved financial credits to Tajikistan (USD 70m) and Belarus (USD 2.56bn), in 2015 – to Armenia (USD 300m) and extended the first tranche of USD 100m. The Council approved financing of five investment projects in Kyrgyzstan and Armenia:

- USD 60m for the repair of the Bishkek-Osh road, financing and implementing in cooperation with Asian Development Bank.
- USD 20m for the purchase of agricultural equipment.
- USD 100m for Toktogul HPP Rehabilitation (Phase 2).
- USD 150m to finance the construction of the North-South road corridor. Feasibility study was fulfilled with financing from an ADB grant. The Procurement Policy of the World Bank will be applied while implementing the project
- USD 40m for the modernization and institutional capacity building for the irrigation system in Armenia

The Silk Road is not only about the transcontinental transit. It is about boosting economic connectivity across the Eurasian continent. The initiative will help to capitalise on growing inland industrial centres and will incorporate innovative industrial and agrarian clusters into the larger international economic activities. It will enlarge domestic production, trade and create more jobs.

Institutional cooperation between development banks could be based on co-financing and complementing mechanism. First, co-financing of large and capital-intensive infrastructure projects is needed. Second, smaller regional banks can 'hook up' to large infrastructural projects advanced by larger banks. In doing so, smaller development banks could concentrate on auxiliary infrastructure, such container terminals and dry ports on major railway corridors or developing road infrastructure on major automobile roads.

The economic development of Central Asia and the Caucasus largely depends on the improvement of the investment climate, which in turn depends on transport accessibility to markets. It is particularly important to promote the development of transport infrastructure so

that landlocked countries have more access.

In the framework of the NSREB industrial park knowledge sharing platform we could consider cooperation through the EFSD grant fund for workshops and other activities. The bank sees much value added through interactions with international institutions, in particular with UNIDO.

**Mr. Neil McKain**, Country Coordinator, EBRD Azerbaijan

The EBRD's portfolio in Azerbaijan has 162 signed projects, with a value of about a billion euros. Almost 75% of these projects are the private sector. The EBRD's strategy for Azerbaijan has the following strategic aims: promote market access and economic diversification, develop a sustainable financial sector that is capable of funding that diversification, and improve governance and the business environment, including tackling corruption.

Turning to business incubators, science parks, technological parks, industrial parks and so on, the EBRD has acquired experience over the years in 12 countries of operations, from Serbia to Kyrgyzstan. We have learned the importance of creating a business environment in which entrepreneurship can flourish.

The aim of business support structures should be to amplify existing advantages and opportunities that exist in a country. For instance, Azerbaijan has low energy costs, access to certain natural resources and a fairly well educated population. Those resources can be tapped to create things like Sumgayit industrial park. I know there are ambitions to create a science and technology park and we strongly support the business incubator, which is a precursor for this. EBRD has created a virtual business incubator through our business advisory programme. In Azerbaijan there are up to 60 projects every year where the Bank supports SMEs with everything from budgeting and financial management to marketing and sales advice. We try to support those businesses that are capable of growing quickly with local expertise. We also help to train local expertise in international best practice, whether that's international reporting standards or marketing best practices. We have helped over 400 companies in Azerbaijan to develop the skills and abilities of hundreds of consultants that support smaller SMEs.

For larger companies, we provide senior industrial advisors from abroad. These are usually people with at least 30 years of experience in particular industrial sectors. We help to develop their business rapidly by flying in experts over a period of a couple of years regularly every two to three months to provide advice to senior management and to owners of mid-sized businesses. We have supported 25 such businesses in Azerbaijan so far. I am pleased to say that a large portion of the companies to which we provide advice go on to win loans and investments from EBRD directly, or through the partner banks to which we provide credit lines, for everything from ordinary SME loans to energy efficiency loans. Soon we will open up new credit lines for agro-business and for lending to women owned and women run businesses.

In summary, EBRD supports grass roots business including through business incubators and

science parks. We see the crucial need for advice often before investment. We hope to do a lot more here in Azerbaijan and in the region as a whole.

**Mr. Tamerlan Taghiyev**, Field Representative of the Islamic Development Bank Group in Azerbaijan

The Islamic Development Bank Group (IDB) is an international financial institution with 56 member countries, including Azerbaijan and Central Asian countries. In 2011 the IDB launched its new Industry and business environment support (IBES) programme. Through this programme IDB deploys technical assistance to its member countries to mitigate private investor risks, to reduce the cost of future transactions, to facilitate private investment, and to engage the private sector in productive sectors. Since its inception in 2011, the programme has provided assistance to different member countries and has mobilised USD 7m of funding to address the private sector development issues.

There IBES programme has four major themes. First, we provide assistance in policy, institutional and regulatory frameworks for special economic zones. We conduct project preparation studies and financial structuring. Second, we assist in policy and regulatory enhancement, capacity and institutional support, and business development services. Third, in value chains we create cluster policies and value chain enhancements and provide business linkage support. Fourth, is from productivity and innovation; we share best practices in management, as well as market technology transfers.

How do programmes work? First, we go to the country to understand the local legislation and industrial policies. We meet with officials and related authorities and we conduct an overview of the market. At the design stage, we formulate the concept and try to understand how it is aligned with the strategies of the government, the IDG and donors. The next step is resource mobilization. The IDB itself is a donor, and the IBES programme also has resources. We have other donors who we can mobilise if they show interest in certain projects.

At the implementation stage we support project management with technical and financial advice. At the end of the project, there is an evaluation, and we conduct a project audit. Evaluation is an ongoing process during the project implementation.

Partnerships are important. The IBES programme partners with governments, bilateral donors and the UN. Specialised agencies different international financial institutions and the IDB also receive support from centre of excellence in host countries. We want to achieve more than development impact alone. We want to improve least developed countries' markets and create opportunities in new markets. We want to share experience and knowledge. We distinguish between financial and non-financial partnerships. Financial partners are those who might provide grant assistance and co-financiers who directly provide funds. Non-financial partners share experiences and knowledge.

Currently, the IDB is preparing two projects in Tajikistan and Kyrgyzstan supporting food cluster

development and a cluster park respectively. The IDB will officially launch a new special programme for Central Asia during the upcoming annual meeting in Jakarta, Indonesia. We expect to leverage about USD 6bn in 2016–2020 for the Central Asian countries.

**Mr. Huseyn Pashayev**, Deputy Executive Director, Azerbaijan Investment Company

The Azerbaijan Investment Company (AIC) is managed by the Ministry of Economy of Azerbaijan. Its priority is to invest as much as possible in the development of non-oil industrial sectors. The AIC carries out activities around the country to establish clusters. An industrial cluster is being built in the Neftchala region.

Industrial clusters offer specific incentives in the form of taxes and customs exemptions. Industrial parks, on the other hand, have infrastructure within and outside the park, and standard production and manufacturing facilities. In industrial clusters banking, insurance, accountancy and other services are provided to entrepreneurs. We are learning from best practices and experiences of industrial clusters in other countries, for example in Turkey. We cooperate with the World Bank at the level of expert assistance and consultancy and this platform is yet another opportunity where we can work with UNIDO to build ties.

**Mr Sherif Muhtaseb**, Programme Manager, Trade & Competitiveness World Bank Group

There are seven elements to put together for the development of successful zones and the first three are generally defined by the government. The rest tends to be directly managed by the operator of the zone. Although there is some natural overlap between the operator and the government being the governance and management, the financial economic model, the procedures and the operation of the zone and also the risk management.

The key question is guiding the strategic vision is what the zone aims to achieve, i.e. diversification, job creation, investment and technological upgrade, import substitution and export simulation. It is important that the government knows from the outset what it wants to achieve. Other questions concern the target tenants and whether the zone is targeting FDI or is oriented more towards the domestic market? Is it large or small scale investment? Is there access to markets and infrastructure? The key is to build a strong business case so the zone stands out from the crowd.

The regulatory framework underpins the zone's success. There are different options; amend the existing legal framework to incorporate the provisions for zones, or, as happens in many countries, set up a new SEZ or industrial estate with a new law and a new governing body. In general, best practice is a dedicated zones law that provides a fresh start to create a new authority, and new rules and regulations. In cases where this is not possible, then it can be incorporated in the existing regulatory regime.

We advocate as best practice the separation of the regulating entity from the operating entity so

they can impartially monitor compliance of the zone among all the stakeholders and avoid potential conflict of interest issues. In respect to the financial model, we can look at that from two angles. From the public side, the government is more interested in the zone from an economic development perspective more than the actual profits and revenue generated through the zone operator. The government would tend to view the zone as an integrated part of a national economic development strategy. From the private sector perspective, the main objectives are generating revenues, profits and shareholder value. For them the zone's financial feasibility is the main driver.

Risk management needs to be carefully considered. The environment and social risks need to be considered at the planning stage - health and safety, financial risk, operational risk, political risk and occupational risk.

Zones are not a panacea to solve all problems. They tend to be more successful when managed by the private sector. It is important to have government support to instil confidence in potential investors. Zones should not be developed in isolation but should be part of an overall integrated plan for the region or the country as a whole. Finally, a clear vision and objective is essential to ensure that all stakeholders are pulling in the same direction.

**Question: Mr Azgar Yayev, Ministry of Economy of Azerbaijan**

Are the EBRD and the IDB planning to expand their activities to support SMEs through so-called green credit lines and other financial tools for enterprises that aspire to introduce resource efficient and sustainable processes and eco-standards.

**Mr. Neil McKain, Country Coordinator, EBRD Azerbaijan**

We are already doing so in many areas. We have credit lines for local banks for lending the improvement of energy use in SMEs and we have trained loan officers in four local banks to do energy efficiency loans for their clients. This is a new business area for them. We have made loans of about USD 5m so far through these mechanisms. We bring in auditors to conduct energy efficiency audits on larger enterprise, which might involve the EBRD financing new equipment. One project we are currently looking at is investment in a combined cycle energy plant.

We look efficient use of energy, from insulation and energy efficient light bulbs to small power stations. We are not working in the renewable sector, which is difficult at the moment because energy is cheap. There is still no feed-in tariff for renewable production from mini hydro or wind or solar, so it is difficult for the EBRD to look at that sector yet.

**Mr. Tamerlan Tagyiev, Field Representative of the Islamic Development Bank Group**

All project financed by the IDB take into consideration the environmental impact. In terms of green projects, I do not recall any projects specifically directed in this area, but with the launch the new special programme for Central Asia, there will be focal points from government entities

and I encourage recommendations to include such projects into the programme.

### **Closing session: Recommendations and workshop summary**

#### ***Speakers:***

**Mr Niyazi Safarov**, Deputy Minister of Economy of the Republic of Azerbaijan

**Ms Olga Memedovic**, Officer-in-Charge, Office of Strategic Planning & Coordination, UNIDO

**Ms Olga Memedovic**, Officer-in-Charge, Office of Strategic Planning & Coordination, UNIDO

This project is directly associated with SDG 9, the nexus between infrastructure, investment and innovation. Innovation is crucial for sustainable economic development. Valuable lesson can be learned from the UN and from people working on the ground.

We have heard about industrial zones and industrial parks and about government strategies. We heard valuable lessons about zones, and the preconditions that should be in place for their success. The ultimate goal of science, technology and industry parks and areas of innovation is to support innovative activities in a country, which is extremely important for resource rich countries that want to diversify their economic base. If they want to diversify they need to put an emphasis on local knowledge and skills. This platform is a valuable means to share lessons learned and experiences.

We will continue to collaborate with ADB to conduct the diagnostic studies. The ultimate goal is a strategic operational framework on how to proceed further on engagement in the Silk Road Economic Belt, which will form the basis for the envisaged second phase of the project.

**Mr. Niyazi Safarov**, Deputy Minister of Economy of the Republic of Azerbaijan

All the presentations and speeches have increased our knowledge and awareness of the New Silk Road Economic Belt project, as well as ISID, which is critical for the development of our economies.

It will be achieve to reach the objectives in our agenda. At the political level there are mutual multilateral and bilateral understandings and at this event we are articulating the political will and approach. We can talk about implementation and this is taking it to the next qualitative level. Every event we organize brings us to another level in quality. We will create more instruments and tools to reach our objectives. We need specific steps in the future, to make sure that when we meet next time, we have some results and can demonstrate achievements to the counterparts through reports and statements.

This workshop was an important event for Azerbaijan, UNIDO and the project participating countries, as well as representatives from other organizations. We need to talk to each other.

Once we have this communication in place I think we will benefit from these events and draw lessons. I would like to mention that Azerbaijan is an active member of this project, specifically the Ministry of Economy of Azerbaijan is contributing and supporting the implementation of this project. We are ready to be in charge of all assignments and tasks we need to accomplish.

## Annex 2: Second Workshop Summary

### Day One, 27 April

#### Official opening of the workshop and greetings

**Mr. Haidar Kholov**, First Deputy Minister, Ministry of Industry and New Technologies of Tajikistan

**Mr. Jan Harfst**, Country Director, UNDP

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

**Mr. Haidar Kholov**, First Deputy Minister, Ministry of Industry and New Technologies of Tajikistan

I would like to welcome you on behalf of the Ministry of Industry and the New Technologies to this important event dedicated to *Fostering Inclusive and Sustainable Industrial Development in the New Silk Road Economic Belt: Leveraging potentials of industrial parks, zones and cities*. I believe that through proactive participation of all parties we can successfully implement this project, not least in Tajikistan. Special thanks go to the United Nations Industrial Development Organization for organising this event and for supporting this project to enhance economic and industrial corridors and to foster science, industrial and technology parks. The project that we will discuss during these two days is also aligned with the initiatives and efforts of UNIDO and its partners in the region.

In Tajikistan, the Government and the private sector are giving special consideration to the industrial and manufacturing sectors. His Excellency Mr. Emomali Rahmon is also paying particular attention to industrial development and science, industrial and technology parks. In July 2010, the Government of the Republic of Tajikistan adopted resolution No. 629 on technology parks. This law will create an enabling environment for the development of industrial and technology parks in Tajikistan with innovative approaches in the manufacturing and production/industrial sectors.

The implementation of the project *Fostering Inclusive and Sustainable Industrial Development in the New Silk Road Economic Belt* brings together experts and organizations from the region. It aims at establishing new links between national and international manufacturers, and also at ensuring integration of science and manufacturing facilities, as well as trade facilitation. Tajikistan is pleased to be a partner of UNIDO in the implementation of this project.

The Ministry of Industry and New Technologies of Tajikistan is responsible for taking forward initiatives in innovation, manufacturing and scientific exchange, also bringing together academics, the private sector, manufacturing producers and industrial facilities. An important event like this workshop plays a crucial role for networking and cooperation. Academics, businessmen and manufacturers are the focus of this project. And the opportunities for direct and foreign investments will be used and become competitive through import facilitation and having the ability to export services and goods.

With the support of UNIDO and the Government of Tajikistan, the technology and science sector of Tajikistan will be able to produce competitive products and services. To ensure inclusive and sustainable industrial development, the Ministry of Industry and New Technologies of Tajikistan also supports the establishment of new science, industrial and technology parks that will boost production and manufacturing and increase exports.

Within the framework of this project, our Ministry, in collaboration with international donors and partners, including the Asian Development Bank, EBRD, the World Bank, and others, will enhance cooperation. In conclusion, let me thank UNIDO for organizing this important event and initiating this important project and supporting its comprehensive implementation in the Republic of Tajikistan.

**Mr. Jan Harfst**, Country Director, UNDP

I thank UNIDO for the excellent organization of this event and the effective cooperation established in Tajikistan. The United Nations Development Programme has been present in Tajikistan for over 20 years and, like UNIDO, has experience in the development and implementation of programmes and projects to build capacity based on knowledge and innovation, as well as economic infrastructure development. More recently, UNDP is working in close partnership with the Government of Tajikistan and other development partners to operationalize the Sustainable Development Goals (SDGs) at the national and subnational levels in Tajikistan. The SDGs are aligned with the National Development Strategy (NDS), the midterm development plan of the Republic of Tajikistan, state programmes and subnational development programmes. The NDS also includes key areas of infrastructure and industry, thereby addressing SDG 9, which focuses on building resilient infrastructure, promoting inclusive and sustainable industrialization and fostering innovation.

The NDS highlights specific scenarios for development, based on accelerating industrialization of the economy and building capacity based on knowledge and innovation. Specific activities undertaken by UNDP are the promotion of production and processing in rural areas, including support to innovative business ideas of more than 30 small and medium enterprises (SMEs) through the business challenge fund, which is part of the Aid for Trade project. Loans are being provided to support the establishment of new production lines, including greenhouses, fruit juice production, confectionary production, sewing workshops, furniture production, fish-farming, dairy production, drying fruits, and others. UNDP also helped SMEs in trade promotion and export diversification. Between 2014-2016, more than 300 SMEs participated in national, regional and international events.

UNDP has supported the Government of Tajikistan in the elaboration of the State Programme on Export Promotion and Increasing Competitiveness (EPIC), adopted by the Government in 2016. In the framework of the Tajik-Afghan cross-border joint project, funded by the Government of Japan, so-called 'one village one product' (OVOP) initiatives were launched for the first time in Tajikistan and Afghanistan. These are aimed at economic development of local communities based on exploiting their comparative advantage in specific local products.

By enhancing the quality of these products, developing marketing strategies and promoting value-chains to international standards, OVOP aims at making small businesses self-sufficient and sustainable, and promoting employment and income generation in rural areas. In addition to enhancing business planning and development skills of 185 entrepreneurs, including 55 women, 500 unemployed people, half of them women, received vocational training in professions demanded by the labour market. In the framework of the project to improve livelihoods of rural population in nine districts of Tajikistan, funded by the Government of the Russian Federation, various projects have been implemented in agricultural production and processing, including production of vegetable oil, dried fruits, horticulture, adras weaving, cold storage, greenhouses and irrigation, among others. Microcredits with low interest rates were provided, contributing to the employment of 450 people, including more than 200 women. This project also

supported the international entrepreneurship forum in Dushanbe in 2016, the regional forum and trade fairs in Sughd in 2015 and 2016, and a business-to-business forum in Sughd with the participation of more than 200 representatives of the private sector and foreign investors.

In 2015 UNDP prepared a concept note for a joint project with UNIDO for the industrial modernization and competitiveness improvement of carpet weaving and embroidery sectors in Tajikistan, which we hope will still attract funding. I am positive that through this and other joint initiatives, UNDP and UNIDO can jointly strengthen cooperation with the Government of Tajikistan for the benefit of the people. I wish you fruitful dialogues and discussions.

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

UNIDO's Business Environment Clusters and Innovation Division has 10 professional staff, 110 international consultants, and a US\$ 100 million portfolio of projects on several continents. UNIDO is a non-resident agency in Tajikistan and therefore this is a golden opportunity to interact with donors, with the international community, with our colleagues from international organizations and development financial institutions, and above all with the Government of Tajikistan.

I encourage you to take advantage of the opportunity for face-to-face meetings and discussions on future cooperation. I would also like to thank you for your participation. This project, in the context of the New Silk Road Initiative and funded by the Government of China, focuses on how to leverage the potential of business infrastructure along transport corridors. UNIDO also has a parallel project along the Maritime Silk Road.

#### **Panel Session 1: Introducing the main issues and purpose of the workshop**

Moderator: **Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

Speakers:

**Dr. Saeed Qadir**, Senior Research Officer, Knowledge Generation Unit, CAREC Institute

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

**Mr. Saeed Qadir**, Senior Researcher, Knowledge Generation Unit, CAREC Institute

The CAREC programme is a partnership of 11 countries funded by the Asian Development Bank. These partners agree to connect their infrastructure as a means to integrate trade and commerce. It is not a formal trade organization like other trade groups, but it aims to deepen and enhance regional cooperation through a systematic and phased approach. The programme is also supported and funded by six multi-electoral institutions - ADB, EBRD, IMF, Islamic Development Bank, the World Bank, and UNDP.

CAREC has a vision of good neighbours, good partners and good relations among all members. It has two strategic objects - trade expansiveness and improved competitiveness. Through trade expansiveness it aims to increase trade opportunities in member countries and through competitiveness it tries to connect infrastructure, lower costs of doing business, and facilitate trade, customer cooperation and energy linkages. CAREC focuses on four primary sectors: transport; trade facilitation; trade policies and energy.

Then we have two policy tools that we use in the four sectors to achieve the aim of global cooperation. The next level of integration will be second tier areas, such as tourism, SME development and financial integration. The CAREC Institute acts as a centre of excellence for capacity building for officials from CAREC member countries. The current focus of the first stage of the CAREC programme is to improve physical connectivity through transport and energy, and also trade facilitation. ADB has provided almost US\$ 10.1 billion and has US\$ 28 billion dollars for all energy, transportation and trade facilitation projects. Almost 30,000 km of roads will have been completed by the end of 2017 in the CAREC region. In terms of energy markets, the CAREC and World Bank projects include CASA, the Central Asia and South Asia regional market for energy, and transmission electric grid projects with Afghanistan, Pakistan, Tajikistan and Uzbekistan.

Based on the four sector areas, CAREC's integrated strategy has defined goals and action plans that link the member countries, and also with the Belt and Road Initiative, of which the New Silk Road Economic Belt project is a component. In addition to transport, we need to harmonize regional trade policies, so that trade barriers and regulations, custom regulations and systems, procedures at the border, beyond the border and after the border are harmonized and linked. In terms of energy, it is vital for the region to exploit its natural resources. Some countries are water stressed, while some are electrical power stressed. Yet, there is potential for hydro, solar, and other renewable energies.

Once connectivity and policy harmonization are established, we need to leverage the benefits through economic corridors, graduating from infrastructure connectivity to trade connectivity, and finally to economic connectivity. This is ADB's signature programme. One of the pilot programmes that CAREC is exploring is the Almaty-Bishkek economic corridor. Tajikistan can learn from ADB's experience of this corridor. There are six corridors. Tajikistan is an important transit country in several of these corridors and there is potential for an economic corridor between [Shandong](#) and Urumqi in China and Dushanbe. We can replicate the example of the Almaty-Bishkek economic corridor because industrial zones integrate with value chains across and beyond the region. ADB would be glad to create a capacity building event for Tajikistan so they can leverage special economic zones.

The CAREC Institute was established in 2014 and the office physically opened in 2016. In previous years the Institute was involved in capacity building exercises and research. This year, we held a road safety initiative workshop with the Government of Tajikistan in Dushanbe. Since Tajikistan is chair of the CAREC programme this year, the CAREC ministerial conference will take place in October 2017 in Dushanbe. In Almaty we are organizing an event on horticulture export development for Central Asian countries. We are conducting two research projects, one in [Shandong](#) province, which is relevant for Tajikistan as a gateway for China to Central Asia. The research will analyse how Shandong province can be a gateway for improving connectivity, trade and competitiveness of not only China, but the whole region. In 2018, we will conduct research on Tajikistan. We are also preparing a study for Mongolia and intend to invite government officials of Tajikistan to attend a workshop in Ulaanbaatar. The only physical barriers between sparsely located populations, are in terms of poor policy coordination and harmonization, and a lack of smooth transit mechanisms. The CAREC Institute, through the CAREC programme, will try to help the region to develop harmonised systems for trade facilitation, transport connectivity and trade policy. If Central Asia is connected it will increase the size of its market, in turn attracting FDI, tourism and industry. It can also enhance competitiveness through economies of scale.

The CAREC Institute will continue to help member countries to develop their capacities. Since the CAREC Institute is organizing a country workshop in 2017 on sharing China's experience of establishing special

economic zones, in partnership with other international organisations and multi-lateral institutions, the CAREC Institute can organize a workshop on sharing experiences on how to establish special economic zones, and necessary policies, incentives, mechanisms, and monitoring regulations. We can also organize capacity building events on e-commerce, on horticulture export development, and perhaps on tourism. We are open to requests and recommendations from the Tajikistan Government.

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

The project *Fostering Inclusive and Sustainable Industrial Development in the New Silk Road Economic Belt* originated at a workshop on the revitalization of New Silk Road in Urumqi, China, two years ago. At the behest of the Government of China, UNIDO developed the project concept in cooperation with the Asian Development Bank and the CAREC Institute. The objective of the project is to establish economic corridors.

This objective is based on the reality that infrastructure, such as transport and energy, or other means of connectivity that facilitate movement of goods, knowledge and information, need to be accompanied by economic activity.

This project concerns corridor two of the six corridors in the CAREC programme. Of the six countries along these corridors the ADB is focusing on Kazakhstan and Kyrgyzstan and UNIDO on Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan. Both projects share a common methodology and both organizations update each other on progress through teleconferencing and face-to-face meetings. Our national partners for the project attended the first workshop held in Baku in 2016, and they will also report on what has been achieved so far in terms of the diagnostic and background studies. While the focus of the project is CAREC Corridor Two, Tajikistan belongs to several corridors and therefore can benefit from the transfer of experience acquired from this project to other corridors.

This project aims to foster inclusive and sustainable industrial development and contribute to the realization of SDG 9 and other industry-related SDGs. Industrial development and industrialization have a multiplier effect on the rest of the economy, creating new jobs, technological learning and economic development.

Investment in infrastructure, transport, logistics and utilities will facilitate connectivity, access to energy and utilities, and enable the flow of goods, services and people. The corridors will have transport nodes, for example such as in Horgosh, where there are logistic centres. These transport nodes and urban centres will create demand for other activities in pre-urban areas and stimulate agglomeration of SMEs, which will provide services to activities around the transport nodes. To realise agglomeration economies government support is essential and policies should be in place to support SME agglomerations and clusters. There should be policy harmonization among countries in terms of trade facilitation and other issues to foster regional integration. Industry now is highly globalized, and countries have to compete by leveraging all possible local assets, such as culture, heritage, and comparative advantages in terms of resources and entrepreneurship skills. Industry must also collaborate with local research institutions, other technology and productivity centres and also accreditation labs and promotion centres; the specific location becomes the point of reference for competitiveness. In this context, creating business infrastructures, such as industrial economic zones, parks, or cities, or regional innovation systems, which is a broader notion, should include all relevant stakeholders.

Great Stone park in Belarus is a plot of land divided in two different areas hosting and targeting different

activities, for example industrial services, manufacturing activities, processing, assembly, logistic centers, commercial centres, and business incubators. There is an area devoted to housing. The park is a place to live and work, connected to the highway and airport, and even has access to the sea.

The 1970s saw the first generation of parks and zones focused on simple manufacturing activities. The second generation from 1975 to 1985 saw a shift to science and technology. In the 1990s, the third generation of parks combined technology and the commercialization of new knowledge. It was clear that more had to be done to develop absorptive capacity for new technologies. A new generation of industrial parks in the 2000s went further to leverage new green technologies and concepts and principles of ecology, in line with the objectives and goals of sustainable industrial development. These parks were based on industrial symbiosis processes, with the idea of zero waste and effective use of resources. One example is an eco-industrial park in Denmark, which is industrial symbiosis in practice based on the idea of cradle to cradle, using natural resources, processing them, and ensuring the waste returns to nature without damage to the environment.

An example of a high-tech park is the aero-space park in Singapore. The park hosts a technology centre, production facilities and centres for development and upgrading of industry. The advantages of parks for the tenants are numerous. It is a high-quality business environment and the enterprises benefit from lower transaction costs and risks, being in proximity to each other, having face-to-face meetings, collaboration and reduced administrative hurdles.

They can create export consortia and attract investors and new tenants. For the economy as a whole, parks can be useful instruments for the acquisition of new technologies, for fostering innovation, for strengthening competitiveness, innovation and technological learning, and for industrial upgrading of target industries. The parks targeting new technologies can also provide trainings and skills to help industries adapt to new technological trends. Ecological principles can be applied when a park is set up or refurbished. Parks are important instruments to leverage new green technologies.

The project diagnostics studies will analyse what has been achieved in the participating countries with respect to establishing parks and zones. Each country will present the results of these diagnostic studies and our experts who have visited the countries will also present their views. The project outcomes are increased regional cooperation and integration on how to leverage parks and zones to stimulate industrial development. Governments should improve capacity and formulate a policy framework for industrial parks, special economic zone planning, development and upgrading. The aim is to establish a knowledge sharing platform, of which this workshop is the second event.

The second output is a Strategic Operation Framework and Action Plan. This Strategic Operation Framework could guide policy-makers in the countries of coverage to formulate their strategies and policies on the development of industrial parks and zones, industrial cities, or eventually establish regional innovation systems, and how to cooperate with partners, and learn from their experience and knowledge.

An Action Plan for follow-up activities and the second phase of the project, including concrete technical cooperation projects and concept proposals, will be presented at the final conference in China.

In 2016, we had the first project inception workshop in Baku. UNIDO experts then conducted missions to Azerbaijan, Tajikistan and Turkmenistan to meet with counterpart institutions, focal points, ministers and to discuss the diagnostic studies. We prepared a questionnaire, which we shared with national

counterparts. We have interacted continuously with the CAREC Institute and with our experts on diagnostic studies and follow-up activities. By the end 2017 we expect to complete the diagnostic studies and share them with national counterparts. We aim to finalize them in early 2018 along with the Action Plan. We hope to hold a final conference in Shanghai to present to the stakeholders the outputs achieved during these two years. It will be also beneficial to all counterparts to have a site visit to China.

**Mr. Haidar Kholov**, First Deputy Minister, Ministry of Industry and New Technologies

I would like to encourage the practical participation of the Tajik and other delegations to understand the importance of industrial parks and cities and how they can foster inclusive and sustainable industrial development at the national, subnational and regional levels.

**Ms. Matluba Uldjabaeva**, Head of the National Association of Small and Medium sized Businesses of Tajikistan

In Tajikistan, industrial and economic industrial corridor development started in 1998 when the law was drafted on the establishment of special economic zones and technology parks or business incubators. In 2010, the Government adopted the resolution and law on technology parks. Tajikistan established free economic zones, one in the north, two in the south and one in the east (four in total). Technology parks are still on the drawing board. If Tajikistan decides to develop economic corridors, we must understand that we cannot compete with China. There should be specific products and specific sectors, as well as specific investments in those sectors to make them competitive in the global market. For this, we should have diagnostic studies conducted by academic experts, manufacturers, industrial experts and ministries of Tajikistan on sectors that might be competitive.

At this stage, nobody has undertaken this research. The National Development Strategy identifies 20 products that might be competitive, but there is no justification or detailed analysis. For the last 12 years, we have been working on a project to promote dried fruits, which rank second place for export potential in Tajikistan. Donors, such as the IFC, are fostering inclusive and sustainable development of the dried fruit sector through capacity building, soft and physical infrastructure. We have conducted two large-scale meetings, one for the Ferghana valley dried-fruit producers, and the second meeting in Samarkand on targeted investment in targeted sectors. Also, we should not forget that there is a Customs Union in Central Asia and the Russian Federation, which stipulates certain conditions and provisions for exporting goods and services. We should take this account because Kazakhstan and Kyrgyzstan are members of the Customs Union.

The third issue is the legal framework, which needs to be harmonized in all the countries of the region. This is also in the frameworks of CIS and the Shanghai Cooperation Organization agreements, among others. But they exist only on paper, and none is implemented in reality. The most sensitive indicator in our case is taxation, which is hindering our competitiveness. We cannot compete with Azerbaijan, Kyrgyzstan, Russia, Kazakhstan and Turkmenistan because of taxation. What can be done in this area? Perhaps UNIDO could help to simplify and harmonize taxation procedures in the region and with the Russian Federation.

We will not be able to introduce new innovations and technologies if do not pay special attention to capacity building and investing in human resources. We have academic institutions and we have universities. Within the last two years we have been introducing hazard analysis and critical control points (HACCP) norms and principles on food quality safety. HACCP has been introduced in 53 SMEs in Tajikistan,

ensuring high quality and high competitiveness.

Countries such as Dubai and the United Arab Emirates are gates to the Muslim world. Goods are imported from Dubai but the truck returns empty. Tajikistan has to use every opportunity to get cheaper access to ports and to enhance our value-added chain.

During the rest of this workshop, please pay particular attention to which sectors are competitive for Tajikistan, taking into account other countries. It could be handicrafts and agriculture. I would also suggest that UNIDO establish a resident office in Tajikistan.

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

Your valuable comments are useful for guiding us in our discussions and our future work. We are also taking into consideration microeconomic conditions on a national and regional level. We are aware of the customs union and what it means for these countries. We know that shallow regional economic integration means low engagement in industrial trade and low division of labour. So therefore we need to start planning a framework. A good example is the ADB's corridor approach, which sees the transformation from transport corridor to industrial corridor, and then to economic corridor. Globalization of industry means trade in segments of the value added chain; 86 per cent of the world's trade is in intermediate goods, not in final products.

When we talk about competitiveness, does it mean developing the whole value chain in a country or focusing on particular segments of this value chain? Some regions have lost competitiveness vis-a-vis China. They have to reinvent themselves, explore new activities, look at their comparative advantage, which means local assets, local skills, history, culture, and comparative advantages already developed. UNIDO is involved in the fruit drying sector. Now we are leveraging funding to extend the project. We intend that the sector take advantage of the New Silk Road, which means internal transport infrastructure.

For developing countries and economies in transition, such as Tajikistan - a middle income country, the challenge for governments is how leverage natural resources in a constructive way. I learned from Chinese colleagues and experts how they addressed a lack of competitiveness. They did not achieve competitiveness at once. They linked their production to global value chains, starting with very small processing activities and moved into high-value added activities.

**Mr. Haidar Kholov**, First Deputy Minister, Ministry of Industry and New Technologies

The legal framework, as Ms. Uljabaeva mentioned, is a crucial issue. Unfortunately, we do not have such a legal framework in Central Asia. We need certain conditions before we can introduce a legal framework. As for the legal framework in the CIS, some legal documents are being slowly implemented or it is not the right time to apply them. We have to work with countries. We have diplomatic relations with many countries, but with others we need to work on a bilateral way. I think that anything adopted at the community level is either used insufficiently or ignored by member countries.

We have been talking about taxes for a long time and many economists have been working on this issue but there is still much to do. As for staff training, the Ministry of Industry has put together a list of proposals on training, particularly in terms of technical engineering. Our university is training different specialists in nearly 100 occupations. Some of the specialties and occupations are not available in this

country, and students are trained in other countries.

We need to develop sectors that depend on local materials. We mentioned vegetables, but we also have other industries, located specifically in rural areas, and we need to focus on them. Currently, we are working on the Industry Development Strategy up to 2030, which will be shared with all stakeholders, including institutes and agencies, and other organizations. I hope that this document will take into consideration your wishes and recommendations on industrial development.

#### **Panel Session 2: Presentations of draft diagnostic studies: Tajikistan and Azerbaijan**

Moderator: **Mr. Haidar Kholov**, First Deputy Minister, Ministry of Industry and New Technologies

Speakers:

**Mr. Alessandro Costa**, Senior Specialist on Industrial Zones Development, UNIDO

**Mr. Shohin Sufiev**, Ministry of Economic Development and Trade, Tajikistan

**Mr. Zamin Badirkhanov**, Ministry of Economy, Azerbaijan

**Mr. Haidar Kholov**, First Deputy Minister, Ministry of Industry and New Technologies

In this session we can talk about what industrial parks development means for each of our countries. During Session 1, there were proposals on individual industry sector development, while this session is dedicated to the presentation of interim results of the diagnostic studies in Tajikistan and Azerbaijan.

**Mr. Alessandro Costa**, Senior specialist on Industrial Zones Development, UNIDO

Diagnostic studies that seek to understand gaps and problems are important for promoting economic development. We reviewed more than 70 different studies and documents, prepared questionnaires and went on mission.

Special economic zone are identified by geographical location, by the incentives offered, by the sector represented and by the firms that they host. Analysis of SEZs can be based on three different phases - before the zones, inside the zones and outside the zones. Before the zones refers to what has to be done to prepare the land, and environment to host a new zone or to understand why a certain environment is unsuitable for hosting a zone. Before the zone concerns regulatory and economic environment for business. If the regulatory and local business environment is not in place, it will be extremely difficult to attract investors.

The treatment of domestic and foreign investors and the regulation of currency exchange are key factors. In Italy, control of regulation of currency exchange was one of the biggest impediments to trade and industry. The banking and finance sector is a precondition, especially with regards to SMEs. When we were researching the four target countries, many studies cited poor relations between firms, especially SMEs and banks. In South East Europe, Italy managed a line of credit to Serbia, but it was not used because the local banks were unable to reach out to SMEs and to give them access to the money. This is a universal problem that is difficult to solve.

Strategic planning involves the different actions and activities needed to ensure the viability and the

effectiveness of a zone. The first significant aspect is the location of an area or a zone. The location is crucial to planning because it dictates the productive factors, the raw materials and the available workforce. A zone should be located near key markets, not isolated in a rural or remote area of the country, in the hope that firms and investors will come because of incentives. The choice of location is based on raw materials, workforce and potential markets. The Silk Road, mentioned earlier, is an incredible opportunity. It is important for the countries here to be members of the Silk Road, rather than transit countries, which is a term that implies something that flows without stopping. Countries, like Tajikistan, should try to have stops in this infrastructure.

Incentives are not the only motivation for investors. All countries provide incentives now, and there is the so called “race to the bottom” of lowering labour and tax costs to attract investors. This is no longer a real success factor for zones. Infrastructure is essential, especially for SMEs. Large firms have the resources to supply their own infrastructure, which is not the case for SMEs. You have to provide a range of services from water to buildings. Soft infrastructure, like Internet access, is essential. From my experience, service centres inside industrial areas are highly appealing to potential investors. For small farmers, for instance, zones are places where they can store milk and produce goods such as cheese.

I have seen in many countries, for instance in Sicily, technology parks, whose success can be attributed to two factors. The first is a good university. Not only do we need educated and motivated young people, but we need a lead firm able to catalyse innovation and production. In Sicily, the large firm ICT Micro Electronics was an engine for the development of the island, and for absorbing new capacities and taking advantage of the abilities of young people.

In our analysis, after looking at issues of strategic planning, positioning and other aspects, we looked inside the zones. There are publicly and privately managed zones. The management structure varies according to the situation. The director of a zone in Iraq, for instance, is extremely proactive and effective, so the zone was developing. In other countries, if you have a management that is not sufficiently motivated it can harm the development of the zone.

In Italy, the last study discovered that 25 authorizations are required to start a business, which takes a minimum of six months. A one-stop-shop is an office where entrepreneurs and businessmen find people from the bank, the ministry of economy, the exchange commission, state register all located in one room.

In terms of outside the zone, many zones around the world are accused of being disconnected from the local community, the region and even the country. When a zone works there should be positive spillovers on the surrounding community, an impact on the workforce, promoting inclusion of women and young people and respect for the environment.

The role of a consultant who wants to promote industrial development and business is like a consulting doctor. They call a consultant like me, an external doctor, who has specialized experience. Implementing the therapy would be impossible without the cooperation of the local consultant. Our objective is to compare the observations and suggestions of the consulting doctor with the observations and suggestions of the external doctor.

**Mr. Shohin Sufiev**, Ministry of Economic Development and Trade, Tajikistan

The development of free economic zones (FEZs) in Tajikistan in 2008 aimed to attract domestic and foreign

investment. The Government established four FEZs: Sughd, located in the northern part of Tajikistan close to the border with Kyrgyzstan and Uzbekistan with a territory of 320 hectares; Danghara, located in the north-eastern part of Tajikistan with a territory of 520 hectares; Pyandj, located in the south of the country with a territory of 400 hectares; and Ishkashim, located in south-eastern Tajikistan with a territory of 20 hectares.

Depending on their location, FEZs have a specific purpose. For example, Sughd's is innovation, Danghara has industry, and Pyandj and Ishkashim are commercial. I hope that we will have a chance tomorrow to visit Danghara. All FEZs were created for 25 years. Together there are 68 firms located in the FEZs: 26 in Danghara, 23 in Sughd, 12 in Pyandj and three in Ishkashim. Most of the firms are located in Danghara and Sughd, but in couple years Ishkashim and Pyandj will register a similar number of tenants.

The FEZ tenant firms produce goods for export to Kyrgyzstan and Uzbekistan. Danghara is located in the central part of Tajikistan, from where firms can access the local market as well as other countries. The Government wants Pyandj and Ishkashim to reach markets in Afghanistan, Pakistan and India. Tajikistan's neighbouring countries have a collective population of around one billion. We can use the FEZs to reach their markets. Some neighbouring countries, like Afghanistan, have trade deficits and according to data, they import of goods and materials worth US\$ 4 billion while exports are worth US\$ 700 million. Many investors and firms want to come to Pyandj and export their materials and services to Afghanistan.

The Tax Code of the Republic of Tajikistan has ten types of taxation. An entity or subject registered in the FEZs will be charged only two types of tax, social tax and income tax. Employees pay income and social tax, while the entities/companies are generally exempt. The tax break has been in place for 25 years. Entities that purchase materials or raw materials for production intended for export will not pay custom duties and value added tax. No tax is charged either on exports of after production goods. For imports, 18 per cent valued added tax is charged.

Since 2008, we have put in place the primary infrastructure in our FEZs; customs, power supply, roads, water supply and soft infrastructure are available. According to the Law of Free Economic Zones of Tajikistan, land is rented at US\$ 1 per square meter per year. If an entity rents one hectare, they will be charged US\$ 10,000 per year. In FEZ Sughd, which was established in the territory of a former industrial park, we have built warehouses, allowing an entity or subject to sign a contract and start their business or production.

There are five steps to obtaining the status of a FEZ tenant. First, the entity gets its tax registration at the place of FEZ location. Second, it prepares a business plan, which it submits with the necessary documents to the FEZ administration for consideration and approval. Third, the documents are submitted to the Ministry of Economic Development, as the body responsible for FEZ activities. Fourth, the entity is issued a certificate stating it is a tenant of a FEZ, which is valid for 25 years. Finally, the entity pays a fee of US\$ 5000 that goes to the budget of FEZ administration for infrastructure maintenance.

If an entity wants to engage in production activities in a FEZ, its business plan budget should be at least US\$ 500,000. For export and import operations, the entity should have a business plan with a US\$ 50,000 budget, and for services provision US\$ 10,000. The equipment should be at least three years old. According to the Law and Regulations of Free Economic Zones, the entity has three years to start production. As mentioned earlier, we have 63 subjects in our FEZs producing competitive goods and services, and exporting to neighbouring countries, like Turkey, China and Turkmenistan. Three business plans are

currently being assessed by our commission. The majority of exports goes to Kazakhstan, Russia, Kyrgyzstan, China, Afghanistan and Turkmenistan. We have exported dried fruits and nuts of FEZ Danghara to EU countries. There are large companies FEZ Sughd and Danghara, such as TajProf, which produces aluminum profiles, SilkotBoya, a joint-stock company with Turkish and Tajik investment, and Aufen, a Chinese metal-construction company. Aufen is the biggest metal-construction company in Central Asia, with a production capacity of 120,000 tons of metal per year. TK Oil, also a Chinese Company, produces 120 million tons of oil per year.

Turning to next steps and challenges, FEZs in Tajikistan are still a quite recent concept. The main problem for the tenants is the lack of infrastructure, such as warehouses and factories. Investors come, see the FEZ, they like the conditions, they like the location, but they want warehouses. To do this, the government of Tajikistan is introducing changes to the Law of FEZ of Tajikistan is to attract an operator company to build the FEZ infrastructure.

We want to organize a one-stop-shop in our FEZ, so that when investor comes and registers, all the stakeholders are in the zone. We have set up a Fund for FEZs and we are working with companies and international organizations to attract investment to the Fund. We want to use this investment to build infrastructure.

**Mr. Zamin Badirkhanov**, Head of Industrial Policy Division, Ministry of Economy, Azerbaijan

Azerbaijan is rich in oil and gas, but during 2015-2016 there were two currency devaluations because of falling oil prices in the world market. The main goal of the Government is to diversify the economy, to develop the non-oil sector, stimulate the private sector, and create a favourable business and investment climate. We were implementing many programmes for the development of non-oil sectors, and the establishment of industrial parks and estates is one goal.

The major sectors of the economy are fuel and energy, construction machinery, metal processing, chemicals, light food industries and agriculture. Azerbaijan has sufficient supply of skill and labour. Since 2011, we have built five industrial parks and two industrial estates.

All our programmes are implemented according to 'Development Concept Azerbaijan - 2020: Outlook for the Future'. The development of the non-oil sector is a key part of the development agenda, which envisages development of the IT, agriculture, industry, chemical, machinery industry, and construction sectors.

Five industrial parks were created based on the legacy of industrial production in the particular area. For example, Sumgait Chemical industrial park is located in an area with an established chemical industry. Current legislation permits FDI in any activity in which a national investor may also invest, unless otherwise prohibited by law. Foreign investments enjoy legal protection, also through international and bi-lateral treaties. Azerbaijan has a liberal exchange rate system and, in general, there are no restrictions on the transfer of money abroad.

In 2009, the law on special economic zones of Azerbaijan was adopted. Modern regulations on industrial parks were adopted in 2013. In 2015, the law on industrial estates was adopted.

Sumgait Chemical Industrial Park (SCIP) was created by order of the President of Azerbaijan in 2011. The total size is more than 400 hectares. SCIP is a Limited Liability Company under the Ministry of Economy. The main products are chemicals used in agriculture, construction, packaging and the automotive industry. Park residents are exempted for seven years from corporate income tax, property tax, land tax, VAT and customs duties for imported equipment. SCIP currently has ten residents.

Incentives are the same for all parks. Balakhany Industrial Park is administered by Tamis Shahar, which means “clean city”, under the Ministry of Economy of Azerbaijan. The main areas are recycling of plastics, electronics, and others. Mingachevir Industrial Park, established in 2015, has an area of approximately 15 hectares. The main areas are textiles and garment production. Garadagh Industrial Park was established in 2015 with total area of 72 hectares. The park has one resident dealing with shipping. Pirallahi Industrial Park was established in 2016 and is not yet functioning. It has total area of 30 hectares. As Azerbaijan imports approximately 95% of its pharmaceutical products, we established a park for pharmaceuticals.

In addition to industrial parks, we have two industrial estates. Neftchala Industrial Estate was established in 2015 with total of area of 10 hectares. Its priority is SMEs. The difference with industrial parks is that industrial estates do not offer tax incentives. They provide only office facilities and infrastructure. The second is Masally Industrial Estate established in 2016 with area of 10 hectares. Both estates are administered by the Azerbaijan Investment Joint Stock company, which is also responsible for attracting foreign and domestic investment. In 2016, a Presidential Decree established free trade zones. Together with a UAE company, we are currently discussing incentives and regulations to apply to this zone.

The main aim of upgrading the existing industrial parks and zones is to improve resource and energy efficiency and productivity, as decreed by the state development programme of development of industry for 2015-2020, the strategic roadmap on the development of the national economy and the strategic roadmap on the development of utilities.

**Mr. Haidar Kholov**, First Deputy Minister, Ministry of Industry and New Technologies

We have heard about the status of industrial zones, parks and cities in Azerbaijan and Tajikistan, about the economic priorities and goals of parks development, the weaknesses and strengths of existing parks and zones, legal aspects and stimuli, problems influencing parks development, modernization of existing parks to increase efficiency and productivity, and finally plans for the future. The speakers have also provided overviews of national and economic priorities. At the same time, there are still issues to discuss on the weaknesses of existing parks and zones and on park modernization.

Much has been said about incentives in FEZs and industrial parks. But how often are these incentives effective? When we are working in other regions of our countries, then we pay VAT and when exporting, all the paid taxes come back to us. But in free economic parks, which also have preferences, they do pay any taxes when they import and export. So what is the difference and how should this preference be evaluated.

Second, when we bring equipment for assembly, we bring the equipment on preferential conditions and we pay taxes for its installation. So we have to pay this tax in other regions, not within the FEZ, but where this tax preference is not valid. So we have to clarify and specify what the tax administration is. People are not exempted from paying the value added tax on the equipment delivery, assembly and installation, so it is not a preference, it is additional costs for those who deliver this equipment.

**Ms. Matluba Uldjabaeva**, head of the National Association of Small and Medium Businesses of Tajikistan

I am a former member of the working group on preparing the regulatory foundations of free economic zones in 2007. Much has changed since that time and most FEZs have become self-sufficient, particularly FEZ Sughd. Two companies working in FEZ Sughd are members of our organization. We helped FEZ Sughd earlier in the elaboration of its website, and were involved in specialist trainings. I have heard directly from investors visiting the FEZs that the steps for approval or certification of a tenant are too complicated and time-consuming. There was even a case of an investor waiting for half a year for the Ministry of Trade and Economic Development to issue the certificate. This has to be reconsidered.

In the beginning, we offered to create a special department in the government so that interdepartmental issues could be solved there instead of by government decree. Investors are interested to contribute in FEZs, but the taxation regime does not function. If we compare Tajikistan and other countries, we have a very poor tax administration system in place. It is not felt only within FEZs.

A working group should be formed to analyse the regulatory base of FEZs and technology parks. We should create a technology park around an enterprise, as was the case in Skolkovo in Russia. To do the same here in Tajikistan, taking into account the existing regulations, would be difficult. First, access to finance is critical. Providing loans at an annual 12% interest rate when the profitability of our enterprises ranges from three to eight per cent is not sustainable. Therefore, the State Fund should consider the profitability of enterprises, and they should provide finance to those enterprises at low interest rates.

Compared to other countries, we do not have subsidies. The agro-industry is important for us since 70% of population live in rural areas. We have to apply either subsidies or accessible long-term financing. The lack of trained staff is also an important issue.

The three problems are regulation, and lack of staff skills and access to finance. The finance offered by the local microfinance organizations and banks are not suitable for industry. In case the Ministry of Industry, which is a member of this Council of the State Entrepreneurship Support Fund, has an opportunity to influence the interest rate, then it is possible.

The Aga Khan Foundation is creating a venture fund to support projects. I hope that our entrepreneurs would take the risk and create a technology park. Maybe a technology park could be established next to the Technological University. Money is needed for this purpose, and it can be easily obtained from an investor as soon as they see the benefit in it.

**Mr. Haidar Kholov**, First Deputy Minister, Ministry of Industry and New Technologies

For your information, the Technological University already has technology park close by. This park is not strictly a technology park, but it is time to strengthen the base of the technology park. As for the Entrepreneurship Support Fund, the conditions of this assistance do not allow most entrepreneurs to access credit even below this 12% interest rate.

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

I wanted to follow up on the point regarding industrial policy and instruments such as taxes, subsidies and

tax breaks. Tax breaks are actually indirect subsidies. We will try to share the experience of other countries on using subsidies and tax breaks in our diagnostic studies, but in general tax breaks should be avoided, especially considering WTO rules and regulations.

Unfortunately colleagues from Femoza, a federation of free and special economic zones based in Geneva, cannot be with us to share their experience of establishing zones worldwide and issues on taxes, subsidies and tax breaks. These aspects will definitely be covered in our studies. Investors are attracted by the capabilities of a zone. Subsidies are needed up to a certain point, but they should not be used continuously.

In the case of the technology park in Belarus, it started with a government grant of US\$ 100,000 and 15 workers. They went on to invent Viber, which was eventually sold to a Japanese company. Now they have 4,000 people working there. It is important to have a leader, an institution or individual with a vision and ideas who can drive the process. It will be good if an SME association working with a large business and the government also drive the process.

With Industry 4.0 revolutionizing this process, companies will not need warehouses. With Industry 4.0 companies will need to reconsider their business model, supply chain management, and outsourcing decisions. Use robots if it is possible and affordable, because this will bring higher returns and competitiveness.

### **Panel Session 3: Presentations of draft diagnostic studies: Turkmenistan and Uzbekistan**

Moderator: **Mr. Alessandro Costa**, Senior Specialist on Industrial Zone Development, UNIDO

Speakers:

**Mr. Alessandro Costa**, Senior Specialist on Industrial Zone Development, UNIDO

**Mr. Hojamyrat Geldimyradov**, Ministry of Economy and Development, Turkmenistan

**Mr. Zamin Badirkhanov**, Ministry of eEconomy, Azerbaijan

**Mr. Alessandro Costa**, Senior Specialist on Industrial Zone Development, UNIDO

Every country and community has its own approach to economic development. There is no one-fits-all instrument or silver bullet for creating successful economic zones or promoting successful economic development. The difficulty is understanding and identifying the right way to proceed. Sometimes the right way is to take a step backwards.

Law is an instrument of social and economic life. In 2000, I was appointed team leader for a group of 20 legal consultants in Manila, the Philippines, for a public-private partnership project for the construction of a dam that would be the main source for electricity and water for the city of Manila. I consulted all documents and noticed that the Philippines had adopted an updated Law on BOT (Built-Operate-Transfer), a very sophisticated public-private operation. These regulations include a complete description of tender documents and competitive processes. However, at the first meeting with my colleagues, I was informed that the authorities still use the previous law of 1960, because they are familiar with it. Modifying and upgrading laws is the easy task; the real test is implementation and enforcement. In the studies and various reports I have read about this project, I noted that many countries want zones, privately managed

and established through public-private mechanisms. It is important to remember that there is no perfect formula. For some countries, such as France, the management of public institutions can be effective. For countries such as Italy, perhaps, I would choose a mixed public-private system. Perhaps in the United States, privately owned and managed economic zones are the most effective. Once more, there is no silver bullet. We must be close to the decision-makers to help them to find the right way.

**Mr. Hojamyrat Geldimyradov**, Ministry of Economy and Development, Turkmenistan

My presentation concerns national economic priorities and goals for industrial parks and zones in Turkmenistan. Thanks to reforms conducted by the President of Turkmenistan, the economy of Turkmenistan is rapidly developing. The industrial parks and the zones of Turkmenistan are supported by national policy based on innovation of economic development and are focused on the enhanced industrial capacity of Turkmenistan, improved export capacity and phasing out import dependency. The measures and targeted investment projects in priority economic sectors have raised the GDP of Turkmenistan to the level of a developed country. At this stage, the share of industry in GDP is around 35 per cent.

Turkmenistan has 11 free economic zones. Since the law on free economic zones was adopted in 1993, Turkmenistan has guaranteed free trade activities in free economic zones and for those stakeholders planning long-term cooperation. For entities located in free economic zones, we propose a specific tax regime and tax holidays. Entities with foreign investment shares represent more than 30 per cent of total investment. For the next three years, after the first three years of the return on investment, entities pay 50 per cent income tax. For the next ten years, the payment is 70 per cent income tax. There is exemption from property tax for the first five years. After that the entities pay only 50 per cent property tax. In addition, there is no rent payment or rent tax for the first two years. There are also certain types of tax holidays in regard to FDI. The entities of FEZs, regardless of ownership type, including foreign companies, joint ventures, and domestic companies enjoy cheap water, oil, electricity and communal services.

In Turkmenistan, we have the national tourist zone Avaza, an important international project located on the Caspian Sea. Taking into account the potential for tourism in Turkmenistan, the zone gives not only the possibility for local tourism development, but also for other services related with tourism. Turkmenbashi sea port and the south-north transport road corridor ensure the connectivity of the area with other regions. In 2014, we established the first ever technology park in Ashkabat, bringing together academics, scholars, industrial, business and technology parks, research and development institutes and laboratories. The development of priorities of industrial subsectors are also harmonized according to the local/domestic labour market and industrial development.

The Government has developed and adopted national programmes on social and economic development of Turkmenistan for 2011-2030. One of the priority areas to increase competitiveness is the intensive development of oil and natural gas. Turkmenistan is located on energy corridors, including a transnational gas line, a joint initiative of Turkmenistan, India and Pakistan launched in December 2015. The length of the natural gas pipeline, to be completed in December 2019, is roughly 1840 kilometers. The average supply will be 33 billion cubic meters per year. A further 800-kilometer east-west gas pipeline was commissioned in December 2015 with an average supply of 30 billion cubic meters a year.

Commissioning the gas pipe line will enable Turkmenistan to further pursue industrial development and urban development, increase export capacity and generate additional revenues. At this stage, we continue to explore new natural gas fields in the Ahal province. We also continue to enhance our capacity in all the

refineries to process more than 1,800 billion cubic meters of gas every year, according to the environmental and European emission standards. We have another chemical complex producing 386,000 of polyethylene and 81,000 of polypropylene a year. In the near future, we are planning to start several natural gas refinery projects, including a natural gas chemical refinery to produce low density polyethylene and polypropylene. There are also plans to build another refinery to process liquid natural gas.

In all the refinery subsectors, we are continuing to implement industry-oriented innovative projects to increase production volumes and quality of manufactured products. There is a refinery complex in Turkmenbashi. We have also commissioned a facility for diesel, heavy oil products, liquefied petroleum gas and high octane gasoline facilities. This will provide an additional manufacturing capacity of 800,000 tons of gasoline a year. We have commissioned technological facilities to transport three million tons of oil through a pressured pipeline, including kerosene and diesel. We have completed the construction of a polypropylene factory, with an annual capacity of 21,000 tons of polyethylene products. Some oil refineries are able to currently produce 450,000 tons of gasoline, corresponding to European emissions standard 4.

The chemical industry is a rapidly developing subsector of the Turkmen economy. The industry produces more than two dozen chemical products, including mineral fertilizers, agricultural fertilizers, salt and sulfate of potash. We are attracting foreign investments to the chemical industry. In 2014, in the city of Mary, we commissioned a modern chemical and natural gas complex for carbamide production. In 2014, we launched the construction of a third carbamide production factory. Once construction is complete, its manufacturing capacity will be 1.5 million tons. We will increase the production of mineral fertilizers, establishing the largest factory in Central Asia producing 1.4 million tons of potassium chloride a year. This is an inorganic fertilizer for the agricultural sector. This factory is functioning, and we plan to export potassium based fertilizers.

We plan to implement other production projects based on local raw materials, such as technical iodine, bromine and bromine products, caustic soda, chlorine and chloric products. One of the most promising areas is manufacturing of construction materials and the application of modern technologies for glass production. We plan to construct a recycling facility, particularly for plastic recycling. Recycled products will be used for the production of construction materials. We export textiles and garments to more than 30 countries.

Turkmenistan has 13 natural gas power plants with an overall installed capacity of 5500 Megawatts. To increase our energy export capacity, we are building transmission lines to export electricity to Iran, through Iran to Turkey, and to the Caucasus. We plan to supply electricity to Tajikistan and Pakistan by enhancing regional energy markets. Turkmenistan has initiated huge energy and transport projects, including the construction of a gas pipeline to China, the Ashkhabad-Meshkhed railway, the new north-south transport corridor Kazakhstan-Turkmenistan-Iran. The new railway and new railway bridge in Taborat across the river Amu-Dar'ya, which will enhance trade between neighbouring states. We have completed a bridge over the railway near Turkmen dam Farab. We have also completed the construction of the first stage of the Asian railway Turkmenistan-Afghanistan-Tajikistan, with further access to Tajikistan and Kyrgyzstan.

This will enable Turkmenistan to transport cargo and services, and Tajikistan will be important transport and transit hub for the region. Through the implementation of large industrial projects Turkmenistan will improve livelihoods and create a platform to further integrate Turkmenistan in the global economy. We

intend to create the enabling environment and attract domestic and FDI, and to create high-level technological parks, to have competitive products, to have integrated and efficient use of Turkmenistan production and resource potential, which is also related with the establishment of new free economic or special economic zones. To maintain Turkmenistan's dynamic economic development, we should also focus on social economic development with particular emphasis on industrial development at the sub-regional level.

Turkmenistan's social economic development programme for 2017-2023 is under development according to Presidential decree. We have a special conceptual programme for the development of FEZs after 2020-2023. The programme gives opportunities for the economic development of Turkmenistan, ensures its independence and economic security, and ensures friendly relationships with all neighbouring countries.

**Mr. Alessandro Costa**, Senior Specialist on Industrial Zones Development, UNIDO

There are immense opportunities for natural resource endowed countries like Turkmenistan to create spin-offs to the oil industry, such as service companies, mechanics and welders, among others. Diversification from oil is of course the priority and all oil countries are pushing for diversification. I think Turkmenistan shows incredible potential, also for economic zones.

**Mr. Akmal Akramov**, Institute of Forecasting and Macroeconomic Research, Uzbekistan

The topic of my presentation is the roles of FEZs in the industrial development of Uzbekistan. I will highlight the most important points and associate them with the topic of our workshop.

We have several sector programmes for the period 2008-2013. The Industrial Development Programme 2011-2015 and the Industrial Diversification Programme up to 2016 are ongoing. The Technical and Technological Refurbishment Programme is in place. We have programmes on electricity and energy, ferrous and non-ferrous metals, cotton processing, textile, leather, oil, and construction of industrial materials. Reforms and the implementation of various programmes have resulted in structural reforms in the leading branches of the economy and improvements to infrastructure of agriculture.

Since 2005, Uzbekistan has demonstrated a rapid pace of reform. GDP in this period has increased 2.4 times and industrial production 2.6 times. Average annual GDP growth is 8.8%, while average annual production growth in GDP increased by 8.2%. This has taken place against a background of global recession.

Uzbekistan has demonstrated macroeconomic stability. Economic growth and stability was provided through active investment policy, structural reorganization of the economy, introduction of new technologies in transport and communication. In the last ten years, investment has grown by an annual growth rate of 15.1% on average, while the share of capital investments increased by 24%. In 2016, US\$ 16.6 billion was invested in Uzbek economy, a 9.6% increase on 2015. Investment policy is aimed at diversification of the economy through technological industries, such as machinery, oil and gas, electronics and IT, textiles and pharmaceuticals.

As a result, we have introduced new industries and implemented many joint projects with US and German partners, such as motor vehicle factories, oil factories, and gas and chemical plants. We had gas and chemicals projects with a South Korean company. We aim to increase GDP by two times by 2030 through

structural modernization and industry. For the period of 2015-2019, we have a programme on structural reorganization, which envisages 875 projects worth US\$ 41 billion.

To accomplish these goals one of the most important instruments was FEZs. Uzbekistan's Law on Free Economic Zones dates from 1994, and according to the Law, the first free industrial economic zone in Navoi was developed in 2008 by Decree of the President. Others followed in Angren and Djizak. In 2016, Decree No. 853 on promoting activities of free economic zones reclassified the existing zones as Free Economic Zones.

This is the second phase of our efforts to create free economic zones. Under a resolution of December 2016 to promote FEZs, we continue to build zones. Four more zones at Urgut, Gijduvan, Kokand and Hazarasp have been established. Overall, we have seven functioning economic zones. Looking ahead, we are discussing FEZs and innovation centres in connection with the Korean and Uzbek University, which is specialized in IT.

We are also looking into a cluster based approach. We have capacity to build and create pharmaceutical economic zones in four areas. Navoi free zone has an advanced logistics centre. It is a hub and it has infrastructure, such as cargo terminals, financial infrastructure, and online services.

Navoi was selected due to its proximity to potential markets. It is located between Samarkand, the largest city in Uzbekistan, and Buhara, a city with significant industrial capacity. It is located by a highway and is a hub for routes to other countries. Another zone is in Angren, close to Tashkent, the capital of Uzbekistan, and not so far from the Ferghana valley. The third free zone is in Djizak province with a total area of 500 hectares. It was established in 2013 and within a short period of time we have nearly 20 projects implemented in the zone.

To provide equal opportunities for all free zones, a presidential decree introduced common incentives for all free zones. Investors providing between US\$ 300,000 and US\$ 3 million are eligible for a tax holiday and exemptions from three to 10 years. The more you invest the more incentives you get. The list of incentives and tax holidays is very diverse. The same decree for free zones includes customs incentives for investments between US\$ 3 million and US\$ 3 million dollars. If they invest equipment, machinery can be exempt from customs fees and duties. The same goes for construction materials.

We have some figures on project implementation in FEZs. Overall, there are 62 medium and high level technological projects in economic zones worth US\$ 451 million. In 2017, 26 new projects are planned; six in Navoi, 13 in Angren and seven in Djizak. These are the new FEZ under Presidential Decree of 2017 No. 4931.

The objective of future free zones is to attract FDI, to ensure a comprehensive set of production and resource-based projects and create modern high-technology production in textiles, chemicals, pharmaceuticals, and the food industry, among others. Urgut free zone has 206 hectares available. In Buhara zone, Gijduvan free zone has 160 hectares of land and in Kokand and Ferghana valley 303 hectares is available for these free zones. We decided to create zones that will accommodate more investment projects and there will be a possibility to fill these zones with an option to develop the areas in the future.

We are working on the development of small economic zones in each district of Uzbekistan based on vacant companies or based on the production facilities that earlier have not been utilized due to a lack of

infrastructure, and where there is a ground to develop small economic zones.

**Mr. Alessandro Costa**, Senior Specialist on Industrial Zones Development, UNIDO

Thank you for showing us how oil countries are diversifying. You mentioned pharmaceuticals production and that it should not be only for multinational companies, but I think we need production of many different products. You also mentioned food, which is not often mentioned here.

Bukhara is typical of what a geographic brand can be, which could be exploited in an innovative way.

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

I ask colleagues from both countries, what are the biggest challenges in terms of establishing industrial parks and zones?

**Mr. Akmal Akramov**, Institute of Forecasting and Macroeconomic Research, Uzbekistan

I divided FEZ establishment into two stages. We first created the free economic zone in Navoi. When zones are being established, and zone itself serves as an instrument to monitor how well it is working. And all the mistakes were noted during this first pilot project. It was decided first to establish one zone, whereas now we are establishing one zone after another, since we know the challenges associated with free economic zones establishment.

We also studied international experience. But none of the countries is able to apply international experiences as each country has its own peculiarities. We identified problems and solved them efficiently. Mr. Costa mentioned the terms industrial parks, innovative parks and free economic zones. We introduced one common term in all the documents and regulatory acts. The challenges we have faced relate to tax preferences, in terms of calculation, provision and registration.

These aspects caused certain problems for us, but within the zone, during about a year, we were entering certain amendments into the regulations to simplify the FEZ operation. Another problem is infrastructure. Without infrastructure, none of the investors would invest their money. We managed to solve these problems promptly and efficiently with the assistance of the Administrative Board, which is also coordinating the activities of FEZs. The Government has assisted in putting infrastructure in place. There were many problems and challenges identified, but I have listed the main three.

**Mr. Hojamyrat Geldimyradov**, Ministry of Economy and Development, Turkmenistan

We have 11 FEZs, but only one or two of the zones are functioning smoothly, whereas the rest are not working at all. The Government assigned a special group to work on FEZs and the issues associated with regulations and incentives are currently being discussed by the Government and private sector representatives. Work is currently ongoing and we are waiting to improve the FEZs. The regulatory documents on Avaza also have to be improved. The Technology Park, established in 2014, has received US\$ 10 million worth of investment in equipment and laboratory facilities and it has been suggested to combine FEZs' activities with the scientific institution.

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

I would suggest paying special attention to the human relationship factor, which is essential in the establishment of any free economic zone.

**Mr. Alessandro Costa**, Senior Specialist on Industrial Zones Development, UNIDO

In conclusion, as the countries presented today have proved, there is still a problem to bring together the private and public sectors. This is not a difficulty only for Tajikistan, Uzbekistan, Turkmenistan, and Azerbaijan. This is a difficulty for 80-90% of the countries of the world. In Italy, the confederation of industry is always criticizing public authorities. In France, private entrepreneurs are critical about their government.

In my experience, good results have been achieved by establishing discussion, focus groups and other public-private dialogue. Private sector stakeholders should be put in a position to debate with public entities. Investment in training on the management of zones is critical for public authorities. Private-public operations are extremely sophisticated and difficult procedures.

Business will always go where there are potential markets. Sometimes industrial areas are placed in the middle of nowhere and they fail because companies do not come and products cannot be sold. The real potential for special economic zones is represented by the traditions and the vocational skills of the local communities.

We have many islands in Italy, but the biggest is Sardinia. It is now famous as a tourist destination, once it had a substantial coal mining industry that supported the local community. However, the industry became uncompetitive and the mines shut down. In response, the government explored options for new industries, ultimately deciding on growing flowers in green houses due to the suitability of the climate and soil, and the proximity of markets in France, Italy and Spain. When this solution was proposed to the miners there was strong opposition because the gap between mining and growing flowers was so wide. The most important thing is thus to meet the needs of the local communities. For instance, carpets in Bukhara are universally known, but I could mention many other aspects, i.e. cattle and fishing, that are traditions in other places.

In my experience, technology parks combine an anchor firm with a potential to produce educated people. Without a big and strong anchor firm firmly rooted in the market, a technological park will never blossom. For eco-parks the willingness of governments to protect the environment is critical. Enterprises should understand to the extent an eco-park park is in their interest. This means that eco-parks need careful strategic thinking.

I have a last consideration regarding SMEs and clusters. Clusters are spontaneous. Public authorities can create the SEZs and the infrastructure, not but they cannot create SMEs or business aggregations. Marketing the products together, investing, having specialized marketing managers inside will help attract SMEs. We need investment in human capacity in public administrations. A trained public administration is essential for any country and this investment will always pay off.

## Day Two, 28 April

### Panel Session 4: Presentations of draft diagnostic studies: Turkmenistan and Uzbekistan

Moderator: **Mr Sherif Muhtaseb**, Programme Manager, Trade & Competitiveness, World Bank Group

Speakers:

**Mr. Sherif Muhtaseb**, Programme Manager, Trade & Competitiveness, World Bank Group **Ms. Kerstin Laabs**, Country Director, KfW Development Bank

**Mr. Hans Joachim Siegert**, International Consultant, TajInvest

**Mr. Zaur Mamadov**, Advisor, Ministry of Economy of Azerbaijan

**Mr Sherif Muhtaseb**, Programme Manager, Trade & Competitiveness, World Bank Group

Special Economic Zones (SEZs) can be a valuable tool to help meet a range of economic development challenges. SEZs are typically established with the aim of achieving one or more of the following policy objectives: 1) attracting FDI; 2) alleviating large-scale unemployment; 3) supporting a wider economic reform strategy and; 3) piloting new policies and approaches.

There are a number of lessons from what has not worked well. These include subsidized or over designed facilities, poor locations away from business and urban centres (growth pole politics), poor maintenance, services, promotion, and crowded facilities. Further issues occur if there are too many agencies involved in regulation, a lack of authority and funding for the zone and weak intra-governmental collaboration. Further pitfalls occur if the zone authority owns, operates and regulates the zone and the zone is funded by government.

A successful zone needs competitive policies, including for manufacturing and exports, access to the domestic market, competition based on incentives rather than the facilitation of services, autonomous, flexible and focused zone authorities and strong social, labour and environmental policies.

A systematic approach is to attract foreign investors and financing institutions in the zones, provide quality services, reduce costs, generate revenue, increase income generation and employment creation by tapping domestic market opportunities, lower dependence on dwindling non-renewable energy sources, achieve vision of government at national level for green growth, and attract investment in the low-carbon energy sector.

Collaborative and concerted platforms to catalyze and leverage private sector investment for dynamic benefits require legal and regulatory frameworks, master-planning, infrastructure and logistics, low-carbon growth, institutional capacity and coordination, targeted investment promotion, trade and investment policies, sector-specific policies, skills – education.

The four phases of SEZ development are diagnostics, policy design and planning, implementation and financing, and operating and adaptation. All zones must be transparent and provide clarity to investors, which reduces unpredictability and risk and instills confidence. Enabling legislation are the laws or decrees that establish and define the zone or park rules and regulations spelling out the “rules of the game”

The main actors are the regulator, owner, developer, and manager/operator. The regulator sets the

administration regime, designates zone sites and licensing, coordinates public agency inputs, and monitors performance and ensuring compliance. The owner can be a public or private sector entity with a legal title to the zone land site. The developer is the owner or a separate entity under contract to physically develop, finance, design and construct the site, as well as market and make preparations for the zone. The manager can be the owner, developer or a third party under contract, responsible for the day-to-day management of zones, lease/sub-lease lots or buildings and operate facilities and services.

The development and finance of the new zone depends 100% on the private sector. In this scenario, the private sector assumes responsibility (and risk) for onsite development, but the government would typically meet agreed off site development obligations, such as 'last mile' infrastructure. Zones are often developed in cases where there are constraints to doing business in the domestic economy. Zones often set up a one-stop shop (OSS) at which enterprises may submit all necessary applications and paperwork. It is advisable to avoid the "one-more-stop-shop" syndrome, whereby the OSS center creates an additional layer of bureaucracy. It is recommended that whenever possible OSS services are electronic, instead of paper based.

There three main actors that promote zones are: i) the national government promotion agency; ii) the zone regulator; and iii) the zone operator. Coordination between these bodies is important.

An example of a successful zone is Jebel Ali Free Zone (Jafza) in Dubai. The success of Jafza can be attributed to seven factors. The first is location. Dubai offers a significant catchment area, serving a number of emerging markets throughout the Middle East, Africa and Asia. The second is investment in infrastructure. The zone created a solid platform for multimodal logistics - ports, airports and roads. The third is integrated development of the port, the zone and a new airport, which joined forces to form multimodal logistics platforms linking sea, land and air for the first time in the Middle East. The fourth is product offering. A key strategy of Jafza is to understand what investors need and develop accordingly. Development is phased and evolves over time, such as land, workers' housing, pre-built and customized warehouses, offices, business centres, showrooms, hotels and a convention center. The fifth is investment promotion and aftercare. The sixth factor is a robust legal and institutional framework that is transparent and well defined, is oriented to the private sector with government regulatory oversight, includes a delegated authority for licensing, registration and permits issuance, a one-stop shop service, e-services, simple application procedures and onsite customs. The final success factor is Dubai's quality of life which offers social and recreation activities, education, healthcare, shopping, multicultural society, a low crime rate and international sporting events.

**Ms. Kerstin Laabs**, Country Director, KfW Development Bank

The Promotional Bank of the Federal Republic of Germany was founded in 1948 as 'Kreditanstalt für Wiederaufbau' (Bank for Reconstruction). The shareholders of the Bank are the Federal Republic (80%) and the federal states (20%). The bank has around 80 representative offices worldwide. The balance sheet of September 2013 was worth EUR 464.8 billion with a financing volume EUR 72.5 billion. The bank has 5,374 employees (2013).

KfW is one of the world's biggest and most active bond issuers on the international capital markets. Funding takes place almost completely on the international money and capital markets, particularly in euros and US dollars. Other important currencies are the Australian dollar, British pound, Japanese yen and Canadian dollar. The offer of different currencies, maturities and structures is targeted in particular at

institutional investors.

KfW regularly receives awards from the specialised press and investors for its successful capital market activities. KfW bonds are also an important investment category for sustainable investors and received top ratings in 2013 from renowned, independent SRI agencies. KfW Banking Group also has international business interests - Development Cooperation and Foreign Trade Promotion. KfW - Financial Cooperation ("FC") involves financing and support for reform processes and investments with government partners in developing and transition countries. KfW DEG - Entrepreneurial Cooperation ("IP") involves funding, advice and support of private - also German - companies in investment in developing and transition countries. KfW IPEX-Bank involves financing in the interest of the German and European economy supporting the internationalization and competitiveness of German and European export companies.

The task of KfW is financial cooperation with developing countries. Its objective is the promotion of reform processes, investment and advisory services in cooperation with governments and public sector institutions in developing and emerging countries. Its economic sectors are climate/environment, design and development of financial systems, and economic and social infrastructure.

KfW DEG is charged with entrepreneurial development work. Its objectives are the promotion of the private sector in developing and transition countries, and financing of investment and advisory services for SMEs. KfW IPEX-Bank provides international export- and project finance. Its objective is international lending in the interests of the European, in particular the German, economy, to promote exports and foreign investments. Its economic sectors are climate/environment, infrastructure, transport, manufacturing, energy/trade, telecom, health and raw materials.

The German Investment and Development Corporation (DEG), founded in 1962 as a state-owned company, finances entrepreneurial initiatives. It is 100% subsidiary of the KfW Group since June 2001. It has promoted approximately 1,800 companies in developing countries to date. In 2016, the volume of financing and new commitments was EUR 1.6 billion, while the total portfolio is EUR 8.6 billion. DEG supports private investments in emerging markets. The customers of DEG are mainly medium-sized enterprises situated in DEG's target countries. DEG finances investment in line with international, environmental and social standards and has positive development impacts on the ground.

DEG offers tailor-made finance for investments in developing countries from an experienced, reliable partner for opening up new markets. It provides individual support for SMEs, advice on planning and local implementation, long-term cooperation and shared risks, special programmes, promotional measures and pilot projects. The project criteria of DEG are profitability, long-term success, environmental and social compatibility. The customers of DEG benefit from their network across the globe and individualized on-site advisory services.

In 2015, EUR 1.06 billion of new commitments were made by sector financing investments across all economic sectors. Services received EUR 349 million (33%), the financial sector EUR 413 million (39%), agribusiness and food industry EUR 78 million (7%), and infrastructure EUR 225 million (21%). DEG's tailor-made finance are solutions suited to individual projects and to individual project and market-oriented conditions. DEG's financing criteria are integrity of partners, corporate governance, transparency, a qualified management team, international accounting standards, appropriate environmental and social standards, business plans, market analysis, and financial budgets, including financial structure, balance sheet, profit and loss and cash flow.

The main developmental impact of DEG are employment, net foreign currency income, public revenues, training and qualifications, social benefits, corporate social responsibility, transfer of know-how and technology, and market and structural effects. DEG is one of the leading European development financiers, and is one of 15 members of the European Development Finance Institutions (EDFI), based in Brussels.

**Mr. Hans Joachim Siegert**, International Consultant, TajInvest

Tajikistan offers incentives for zone tenants including exemptions from income tax for two years with investments ranging from US\$ 200,000 to US\$ 500,000, for three years with investments ranging from US\$ 500,000 to US\$ 2 million, for four years with investments ranging from US\$ 2-5 million, and for five years with investments over US\$ 5 million. Technical equipment and components, goods for projects approved by the Government, goods for construction of hydroelectric power stations, and especially important facilities for Tajikistan, and goods for processing cotton and aluminum are also exempt from VAT and customs duties. Domestic and foreign investors have equal rights. Foreign investors are legally protected, have the right to use and transfer income abroad, free movement of property and information, protection of intellectual property rights, and the right to use natural resources.

Priority development sectors are power engineering, agriculture, textiles, coal and tourism. Successful investment examples include CASA-1000, which offers the possibility to sell excess electricity summer to energy-scarce countries of South Asia (5 billion kWh in the past year with a potential income of US\$ 250 million dollars). This year, new power plants with a capacity of about 300 megawatts were constructed. CASA-1000 has improved access to electricity and sustainable solutions in water management.

Investments in the mining industry were made by companies from China, Tajikistan and Canada in gold ore. Russian US, Canadian and Swiss companies are also investing in the development and production of oil and gas.

Last year, for the first time, gold production exceeded the 4-ton mark. The achievement was reached by the commissioning of the new gold recovery of "Zarafshon" plant. "Zarafshon" intends to start extracting copper, whose volumes can reach up to 7000 tons per year.

Agriculture is the second largest sector in the economy after services. Cotton is the main agricultural export product, accounting for 90% of total agricultural exports. Other export agricultural products include raw and processed fruits and vegetables (9% of agricultural export value). Up to 20% of agricultural production is lost due to a shortage of storage and processing facilities. Tajikistan also has great potential for cotton production and processing. At present, about 400,000 tons of cotton are grown in the country, but only 15-20% are fully processed. It should be noted that for investors in cotton processing, special tax and customs privileges are provided. Successful examples of cotton fiber processing enterprises are Olim Textiles in Matcha district and Khujand-Invest-Cotton.

In 2016, industrial enterprises produced goods worth 15,070.6 million somoni, compared to 2015, the volume of industrial production increased by 16%. LLC "Cool drinks of Coca-Cola of Tajikistan" was opened in 2015. The capacity of the enterprise is 100 million liters per year. Investment in the first stage is US\$ 30 million. About 200 working places have been created. Investment in the second stage is US\$ 30 million.

There is a need for housing and retail facilities, recreation and entertainment, shopping and entertainment

centres and modern settlements. US\$ 40.44 million has been invested in construction, which is 4.80% of the total amount of investments in the economy. In 2015, this share was US \$ 34.5 million. Construction of a cargo terminal at the international airport of Dushanbe began on March 31, worth \$ 17.5 million in the first phase. The investor of the Cargo Terminal is The Government of Japan through the Japan International Development Agency (JICA).

**Mr. Zaur Mamadov**, Advisor, Ministry of Economy of Azerbaijan

The Sumgait Chemical Industrial Park (SCIP) and its managing organization the Sumgait Chemical Industrial Park LLC were established by Decree 548 in 2011 by the President of the Republic of Azerbaijan. The aim of SCIP is to develop the country's industrial production competitiveness through innovation and technology, to promote and support entrepreneurship, to ensure stable development of the non-oil sector, to increase employment level of the population, and to offer foreign investors a modern approach for industrial development. The area of Sumgait is 83km<sup>2</sup>. The population is 358,000. During the Soviet period up to the end of 1980s more than 40% of petrochemicals were produced in Sumgait.

The total area of SCIP is 466.37 ha. SCIP is 31km from Baku and close proximity to the Baku-Rostov (Russia) highway. Sumgait Chemical Industrial Park LLC is under the administration of the Ministry of Economy of the Republic of Azerbaijan. Key benefits for investors are a vocational on site school specialized in chemistry, mechatronics and construction. An on-site laboratory is supplied with modern equipment. SCIP offers a full range of analytical services, laboratories, a strong R&D network, on-site tests, three different workshops for R&D and students, and skilled scientific personnel. Sumgait is a traditional chemical city with several universities specialized in chemistry. The key benefits for investors are ADA University, "Gafgaz" University, Sumgait State University, and other institutes.

The residents have the opportunity to benefit from financial support from state or private organizations, such as the Azerbaijan Investment Company (AIC), the Caspian International Investment Company (CIIC), the National Fund for Entrepreneurship Support, and the Private Investment Companies. SCIP's residents are exempted for seven years from corporate income tax, property tax, land tax, VAT and customs duties for imported equipment.

On-site raw materials used are "Azerikimya" PU, Urea Plant, Heydar Aliyev Baku Oil Refinery, Azerneftiyagh Oil Refinery, Petkim Petrokimya, SOCAR OGPC, Azerbaijan Methanol Company. There are major products and converted products. Major products conclude polyethylene, ethylene glycol/ethylene oxide, polypropylene, LDPE, HDPE, Ethylene. Converted products are construction products, automotive components, packaging and containers, electronics, textile, paints and coatings, solvents and fertilizer.

Sumgait Chemical Industrial Park residents:

- The registration date of Azertexnolayn LLC is September 23, 2013. It's area is 23,67 hectares. Number of employees are 1150. Annual production capacity is 75 000 tons of various diametric pipes, 38 000 tons of high pressure resistant hydro-technical equipment and 6 000 tons various diametric polyethylene pipes.
- The registration date of SOCAR Polymer LLC is September 23, 2013. Its area is 30 hectares. Number of employees are 300. Annual production capacity is 180 000 tons of polypropylene and 120 000 tons of high density polyethylene.

- The registration date of Baku Non Ferrous and Foundry Co. LLC is February 19, 2016. Its area is 5 hectares. Number of employees are 72. Annual production capacity is Ferro Silicon (FeSi) – 20 000 tons, Ferro Silicon Magnesium (FeSiMn)– 36 000 tons.
- The registration date of MST Engineering Services LLC is March 14, 2016. Its area is 2 hectares. Number of employees are 40. Annual production capacity is pressure-resistant hoses and fittings - 30 000 units.
- The registration date of SIKA LLC is March 15, 2016. Its area is 1,5 hectare. Number of employees are 58. Annual production capacity is different types of construction chemicals - 5000 tons.
- The registration date of Aqrokimya Azərbaycan LL is 13, 2016. Its area is 18.3 hectares. Number of employee are 100. Annual production capacity is Liquid pesticide – 57 000 tons and powdered pesticide – 1 000 tons.
- Registration date of ALCO LUBRICANT COMPANY LLC is July 29, 2016. Its area is 2.5 hectares. Number of employees are 60. Annual production capacity is wide range of lubricating oil – 30 000 tons.

#### Industrial parks

- The Decree “On Establishment of Garadagh Industrial Park” number 1255, dated June 03, 2015 of the President of the Republic of Azerbaijan Ilham Aliyev. “Sumgait Chemical Industrial Park” LLC, which is under the Ministry of Economy of the Republic of Azerbaijan. Its area is 72 hectares. It is situated in “Baku Shipyard”.
- The Decree “On Establishment of Mingachevir Industrial Park” number 1077, dated February 26, 2015 year of the President of the Republic of Azerbaijan Ilham Aliyev. “Sumgait Chemical Industrial Park” LLC, which is under the Ministry of Economy of the Republic of Azerbaijan. Its area is 14.8 hectares.
- The Decree “On Establishment of Pirallahi Industrial Park” number 2336, dated September 14, 2016 of the President of the Republic of Azerbaijan Ilham Aliyev. “Sumgait Chemical Industrial Park” LLC, which is under the Ministry of Economy of the Republic of Azerbaijan. Its area is 30 hectares.
- The Decree “On Establishment of Balakhany Industrial Park”, dated December 2011 of the President of the Republic of Azerbaijan. “Tamiz Shahar” OSC, under the Ministry of Economy of the Republic of Azerbaijan. Its area is 7 hectares.

#### Closing session: Recommendations and workshop summary

##### **Speakers:**

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

**Mr. Haidar Kholov**, 1-st Deputy Minister, Ministry of Industry and New Technologies

## **Annex 3: Final Conference Report**

### **Summary**

The final conference of the project *Fostering inclusive and sustainable industrial development (ISID) in the New Silk Road Economic Belt: Leveraging potentials of industrial parks, zones and cities* was held in Shanghai, China. This conference marked the end of the first phase of the NSREB project and the presentation of its planned outputs – analysis on the status and potential of science, industrial and technology parks, zones and cities, and investment opportunities in the target countries.

The location of the conference was apt; one look no further than China to see the profound impact that zones can have on economic development. The country's special economic zones (SEZs) technology zones and industrial parks contribute a fifth of GDP, and account for almost half of foreign direct investment (FDI), 60% of exports, and provide 30 million jobs. In China's case, they have also acted as test beds for economic, labour and fiscal reform.

The main objective of the conference was to present the main findings of UNIDO's diagnostic studies and strategic framework for SEZ and industrial zone development in the four project countries, and to bring together participants from government, special economic zones, think-tanks, the private sector, and development partners, including international organizations and development finance institutions, to discuss next steps and the formulation of concrete project proposals in the countries along the NSREB.

The conference, organized in collaboration with the Jinqiao Development Management Committee, Shanghai, attracted participation from the project focus countries, Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan, as well as from international financial institutions – the Asian Development Bank (as project partners) and the World Bank, experts on China's Belt and Road Initiative and Maritime Silk Road Initiative, and representatives from parks and zones in China.

The objective of the conference was three-fold. Firstly, the conference participations were presented with the methodology and main findings of diagnostic studies prepared during the project to assess the status and potential for parks and zones in the project countries. In addition, the key recommendations for establishing new parks and zones and upgrading existing ones were shared from the *Strategic Framework for Leveraging Industrial Parks and Zones for Inclusive and Sustainable Development*. Representatives from the four project countries were given the opportunity to react to the two draft publications as well as provide national overviews of the status of parks and zones and future plans.

The second aim of the conference was discuss international and regional initiatives to promote integration and boost cross border trade, notably through the Chinese government's Belt and Road Initiative (BRI) and the Asian Development Bank's Central Asia Regional Economic Cooperation (CAREC) programme. The BRI incorporates the New Silk Road Economic Belt and the Maritime Silk Road Initiative and has the potential to attract huge investment to Central Asia and provide opportunities for trade and economic growth based on value added and high technology sectors. The CAREC programme has invested heavily in energy and transport infrastructure along six cross border economic corridors, linking Central Asian countries to China in the east, Europe in the west, Russia to the north and Pakistan to the south. The aim of the UNIDO project – and the ADB's parallel project – is to ensure these transport and energy corridors take full advantage of economic and trade potential by leveraging the potential of sustainable industrial parks,

special economic zones and smart cities, in all their forms.

The third goal of the conference was as a platform for sharing knowledge and best practice from China on parks and zones. In this regard, the speakers identified some common success factors, confirming some of the key recommendations of the project's *Strategic Framework*.

The diagnostic studies found that, on the whole, parks and zones in the region are undeveloped. Strategies are to yet be defined and legal frameworks tend to be fragmented. Coordination among the institutions involved in zone establishment and operation is usually unsatisfactory for relevant institutions and stakeholders. Participation of private stakeholders in SEZ development is rare.

Similarly, the ADB, presenting the findings from its parallel studies on Kazakhstan and Kyrgyzstan, attributed the limited success of zones in the two countries to a lack of coherence between national development strategies and plans, and approaches towards parks and zones, which frequently ignore the changing global trade and investment landscape (including the impact of global value changes on global production and trade systems).

In China, zones and parks have spread throughout the country from their coastal origins and now number in their thousands. Lessons learned from successful examples in China are useful for other countries and can help avoid common pitfalls that plague failing parks and zones. The park experts drew attention to lessons learned, best practice and challenges ahead from China's experience. They stressed that the development of parks must be guided by an industrial development strategy based on a thorough examination of the economic potential and comparative advantage of the area where the zone is located. Another lesson is that park management should continuously monitor tenant firms to keep tabs on their performance according to a set of indicators (i.e. total input and output, energy consumption, and production capacity) and remove failing companies that miss agreed environmental, social and economic targets. Successful parks have international-standard infrastructure and open investment and trade policies. Location is also important. Many Chinese parks and zones are linked to transport infrastructure such as ports, highways, railways and airports. Others have fostered a strong brand and reputation for industrial upgrading and labour-, capital- and technology- intensive industries, which in turn help to attract investment.

The experts also advised against allowing a proliferation of parks in one location that share a similar, competing sectoral focus. This can adversely affect the creation of distinctive and complementary agglomeration areas. The need for parks and zones to cooperate and coordinate with local authorities, for instance on investment promotion, was also emphasized. Failing parks and zones also often have poor social, labour and environmental policies. At the national level, governments should pay attention to improving the business environment, facilitating investment and simplifying cumbersome customs procedures.

Park and zone planners were cautioned against basing competitiveness on incentives (i.e. tax exemptions) rather than the quality and range of services offered. Tax incentives tend to be time-limited and do not ensure long-term success if host countries do not address larger business environment issues like workforce quality, policy predictability, and market growth. Indeed, aspects of the broader economic and business environment are key to competitiveness, and governments should draw their attention to addressing volatile exchange rates, poor governance (corruption, bribery), infrastructure (energy and roads, customs and clearances; business rules and regulations), and productivity (talent and low skills,

underdeveloped finance system, lack of technological capabilities and low efficiency of research and development infrastructure).

The presentations defined factors shared by failing or poorly performing parks and zones. Among these, the experts called for strong private sector engagement from the planning stage onwards; a public sector-driven approach with strong political influence can result in decision making that neglects market realities and firms' requirements. The institutional framework and structures with governance and management responsibilities should be lean but effective and efficient, avoiding overlapping responsibilities and over regulation body. Management authorities work best when they are autonomous and flexible.

Given its expertise and experience, the country participants and park and zone experts called upon UNIDO to provide its assistance in coordinating and facilitating the exchange of best practice and knowledge that can help governments to better plan and design sustainable and inclusive parks and zones. In addition, UNIDO pledged to assist countries in industrial and technological upgrading and innovation, through the development of sustainable parks and zones, smart cities, clusters and parks. Looking ahead, UNIDO will work with the project countries to formulate concrete projects.

#### **Official opening of the workshop and greetings**

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

**Mr. Haidar Khol**, First Deputy Minister of Industry and New Technologies of Tajikistan

**Ms. Zhao Xiaolei**, Head, UNIDO ITPO Shanghai

**Mr. Yin Hong**, Vice Director, Jinqiao Development Management Committee

#### **Mr. Yin Hong, Vice Director, Jinqiao Development Management Committee**

On behalf of the Jinqiao Development Management Committee, it is my sincere pleasure to welcome you to this conference dedicated to *Fostering Inclusive and Sustainable Industrial Development in the New Silk Road Economic Belt: Leveraging potentials of industrial parks, zones and cities*. Jinqiao Development Management Committee is proud to be a co-sponsor of this event and to cooperate with the United Nations Industrial Development Organization.

#### **Ms. Zhao Xiaolei, Head, UNIDO ITPO Shanghai**

I am pleased to be here today and to have the opportunity to meet experts and leading figures from UNIDO, Central Asian countries, development zones in Shanghai and prestigious universities to discuss industrial parks and the promotion of inclusiveness in the New Silk Road Economic Belt.

For those familiar with the Shanghai Development Zone, today is a memorable day. On this day 28 years ago, the Communist Party of China Central Committee and the State Council took the decision to develop the Pudong New Area. After 28 years of continuous effort, Pudong has been transformed from a rural area to the Pudong New Area Development Zone consisting of four world-renowned development zones: Lujiazui Finance and Trade Zone, Zhangjiang Hi-tech Park, Waigaoqiao Free Trade Zone, and Jinqiao Export Processing Zone. Undoubtedly, Shanghai Development Zone has made important contributions to the

development of the city.

Before joining UNIDO, I worked for over 20 years in high-tech parks and development zones in Shanghai. I personally experienced the rise of Chinese industries and globalization and the transformation of parks into urban areas. For many years, I have thought about what makes a successful industrial park and I would like to take this opportunity today to share with you my views.

Parks must have a forward-looking strategic planning and development focus. By taking advantage of a park's unique features and identifying future industrial development directions, the park can develop rapidly and stimulate innovation. Zhangjiang Hi-tech Park benefited from municipal level support for Zhangjiang, an industrial cluster development strategy and a strategy to uphold excellence in industry, talent, production, corporate culture, and service support. In the future, Zhangjiang will keep abreast of cutting edge developments, and promote transition from high-tech "park" to "science city."

A second factor for a successful park is support to high-end industries, clusters, and innovation. High-end industry and clustering can speed up the transformation of the industrial structure from labour-intensive to intelligence-intensive, and truly realize a transformative upgrading of industry. For example, Zhangjiang concentrates on high-end industries such as integrated circuits, software and information services, and bio-medicine. The medical industry cluster includes production of medicines and medical instruments, as well as medical care. The "E-industry" cluster includes firms that design and manufacture integrated circuit chips and applications for mobile Internet.

I would like to take this opportunity to introduce the UNIDO Shanghai Investment Promotion Centre. The Centre was established in 2001 by the Ministry of Commerce of China, Shanghai Municipal Government and UNIDO. It is one of UNIDO's nine investment and technology promotion organizations (ITPOs) around the world. The Centre aims at promoting foreign investment and technology upgrading in Shanghai, whilst promoting China's exports of capital and technology to other developing countries and transition economies. We provide services to enterprises, local governments, investment promotion agencies, among others, such as capacity building training and overseas investment consulting. We use the resources of the global ITPO network and UNIDO's project database to mobilize investment from around the world and improve technology, knowledge, and skills, and implement sustainable, inclusive and innovative projects in China and other developing countries. As the "Belt and Road" initiative gains support from more and more countries around the world, China's foreign policy has become increasingly open. The UNIDO Shanghai Investment Promotion Centre will use this as an opportunity to promote linkages between domestic and foreign industrial parks and to encourage the exchange of talent and investment to achieve common prosperity.

Finally, I wish the conference success and all participants a pleasant stay in Shanghai.

**Mr. Haidar Khol, First Deputy Minister, Ministry of Industry and New Technologies of Tajikistan**

On behalf of the Ministry of Industry and the New Technologies of Tajikistan, I am honoured to participate in this important event dedicated to *Fostering Inclusive and Sustainable Industrial Development in the New Silk Road Economic Belt: Leveraging potentials of industrial parks, zones and cities*. Special thanks go to UNIDO and the Jinqiao Development Management Committee for organising this event and for supporting the project to enhance economic and industrial corridors and to foster science, industrial and technology

parks. The project that we will discuss during this conference is also aligned with the initiatives and efforts of UNIDO and its partners in the region.

The implementation of the project *Fostering Inclusive and Sustainable Industrial Development in the New Silk Road Economic Belt* has brought together experts and organizations from the region. Tajikistan is pleased to be a partner in the implementation of this project.

The Ministry of Industry and New Technologies of Tajikistan is responsible for taking forward initiatives in innovation, manufacturing and scientific exchange, also bringing together academics, the private sector, manufacturing producers and industrial facilities. An important event like this workshop plays a crucial role for networking and cooperation. Academics, businessmen and manufacturers are the focus of this project. And the opportunities for direct and foreign investments will be used and become competitive through import facilitation and having the ability to export services and goods.

With the support of UNIDO and the Government of Tajikistan, the technology and science sector of Tajikistan will be able to produce competitive products and services. To ensure inclusive and sustainable industrial development, the Ministry of Industry and New Technologies of Tajikistan also supports the establishment of new science, industrial and technology parks that will boost production and manufacturing and increase exports.

In conclusion, let me thank UNIDO for organizing this event.

**Ms. Olga Memedovic**, Chief, Business Environment Clusters and Innovation, UNIDO

I would like to welcome you and thank you for your participation in this conference marking the successful culmination of this project. Shanghai is the ideal setting for the conference, in acknowledgement and gratitude to the generous support of the Government of China, which funded the project, but also in recognition of the critical role that special economic zones have played in the development of the city in past decades.

At the behest of the Government of China, UNIDO developed the project in cooperation with the Asian Development Bank and the CAREC Institute, with the objective of establishing economic corridors. By leveraging infrastructure-industrialization-innovation nexus through policy, the UNIDO project *Fostering Inclusive and Sustainable Industrial Development in the New Silk Road Economic Belt* aims at fostering inclusive and sustainable industrial development in countries along the Belt and Road Initiative, and contribute to the realization of SDG 9 and other industry-related SDGs.

The project has been implemented in cooperation with the Asian Development Bank (ADB), whose parallel project that we will hear about later also concerns corridor two of the six transport, energy and trade corridors of the Central Areas Regional Economic Cooperation (CAREC) programme. Both the UNIDO and ADB projects support the establishment of economic corridors, based on the reality that infrastructure, such as transport and energy, or other means of connectivity that facilitate movement of goods, knowledge and information, need to be accompanied by economic activity. Of the six countries along CAREC corridor two, the ADB project focused on Kazakhstan and Kyrgyzstan and UNIDO on Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan.

## Panel Session 1: The Belt and Road Initiative

**Moderator and speaker: Professor Jean-Marc F. Blanchard**, Executive Director, Mr. & Mrs. S.H. Wong Center for the Study of Multinational Corporations (Wong MNC Center)

### Speakers:

- **Ms. Olga Memedovic**, Deputy Director and Chief, Business Environment Clusters and Innovation, UNIDO
- **Mr. Guoliang WU**, Senior Regional Cooperation Specialist, Asian Development Bank
- **Ms. TIAN Xiaohong**, Vice Secretary, Silk Road Chamber of International Commerce

### **Ms. Olga Memedovic, Deputy Director and Chief, Business Environment Clusters and Innovation, UNIDO**

Industrial development and industrialization have a multiplier effect on the rest of the economy, creating new jobs, technological learning and economic development. Investment in infrastructure, transport, logistics and utilities can accelerate connectivity, economic linkages, and network development between transport nodes and urban centres, access to energy and utilities, and enable the flow of goods, services and people. Transport nodes and urban centres can create demand for other activities in pre-urban areas and stimulate agglomeration of SMEs, which provide services to activities around the transport nodes.

Government support is essential to attain agglomeration economies and policies should be in place to support SME agglomerations and clusters. Countries should harmonise policies on issues such as trade facilitation in order to foster regional integration. Industry has become highly globalized, and countries have to compete by leveraging all possible local assets, such as culture, heritage, and comparative advantages in terms of resources and entrepreneurship skills. Industry must also collaborate with local research institutions, other technology and productivity centres and also accreditation labs and promotion centres; the specific location becomes the point of reference for competitiveness. In this context, creating business infrastructures, such as industrial economic zones, parks, or cities, or regional innovation systems, which is a broader notion, should include all relevant stakeholders.

Parks and zones in all their forms have many advantages, particularly in advancing national industrial development policy. Corridors, special economic zones, industrial parks (eco and smart), clusters and RIS, innovation/technology areas, and agro and techno poles can be used to mobilize local assets, talent pool, history, culture and resources, facilitate industrial modernization and upgrading and create new jobs. At the same time, they support structural transformation in the economy and realization of SDGs and inclusive and sustainable industrial development, enhance competitiveness, and allow for the piloting of new policy initiatives and business models. They create high quality of business environments, lower transaction costs and risks, and benefit backward and forward linkages in the local economy.

For the economy as a whole, parks can be useful instruments to acquire new technologies, foster innovation, strengthen competitiveness, innovation and technological learning, and industrial upgrading of target industries. Parks targeting new technologies can also provide trainings and skills to help industries adapt to new technological trends. Ecological principles can be applied when a park is set up or refurbished. Parks are important instruments to leverage new green technologies.

### *History of parks and zones*

During the mid-1960s, many countries in North America and Western Europe adopted comprehensive development strategies and regional industrial parks development programmes with a focus on large-scale capital-intensive projects and industrial sites development through the real estate investment. It was not until the 1970s that the first generation of parks and zones focused on simple manufacturing activities appeared. This early variety was often comprised of simple structures and storage facilities. The development and operation of parks and zones at this time was driven by the public sector, and governments provided subsidies for services and facilities.

The second generation from 1975 to 1985 saw a shift away from heavy industry to science and technology and high value-added industrial activities. Basic facilities and services became more sophisticated and attuned to science and technology. In the late 1990s, parks started to focus on the commercialization of new knowledge. Greater emphasis was put on non-price competition, making parks and zones attractive places to live and work with a wider range of support services for firms. Management approaches also evolved and public-private partnerships became more widespread. A new generation of industrial parks in the 2000s went further to leverage new green technologies and concepts and principles of ecology, in line with the objectives and goals of sustainable industrial development. These parks were based on industrial symbiosis processes, with the idea of zero waste and effective use of resources.

### *Lessons learned: What has not worked well in the world*

Experience exposes common factors that have undermined the performance of parks and zones. First, at the planning stage a public sector-driven approach and strong political influence can lead to poor decision making and neglect market realities and the specific requirements of companies. Without in-depth demand research and analysis on the infrastructure needs and potential linkages between related and non-related industries, parks and zones are likely to fail. A second issue is inadequate institutional structures, ranging from an excess of agencies involved in regulation, to a lack of authority in the regulatory body and weak intra-government collaboration.

Uncompetitive policies can also affect performance. Parks and zones need unrestricted access to the domestic market and should be competitive on the basis of services rather than incentives (i.e. tax exemptions). In terms of management, park and zone authorities work better when they are autonomous and flexible. Failing parks and zones have poor social, labour and environmental policies. At the national level, governments should pay attention to improving the business environment, facilitating investment and simplifying cumbersome customs procedures.

### *Successful park examples*

Three examples of successful parks are Jebel Ali Free Zone (Jafza) in Dubai, Kalundborg in Denmark and Adlershof in Berlin. In Jafza's case, location worked to the zone's advantage; Dubai offers proximity to markets in the east and west. The zone also built a solid platform for multimodal logistics - ports, airports and roads. Phased development allowed the zone to evolve over time so that land, housing, warehouses, offices, business centres, showrooms, hotels and other facilities were driven by demand from tenant firms. Jafza also benefits from a transparent and well defined legal and institutional framework oriented to the private sector.

Kalundborg eco-industrial park in Denmark is cradle-to-cradle industrial symbiosis in practice. Tenant firms use natural resources, process them, and ensure that waste returns to nature without damage to the environment. The park's eco credentials developed incrementally as tenant companies operating in energy, waste management, pharmaceuticals and manufacturing took advantage of industrial symbiosis. Excess heat generated by the park's power plant warms homes and an adjacent pharmaceutical company uses the steam. Sharing resources means that thermal pollution from the power plant is cut significantly. Kalundborg is often cited as an example of win-win sustainability based on a willingness to cut costs and protect the environment. Both the firms and the local community benefit from environmental and economic returns.

Berlin Adlershof Science City is Germany's largest Science and Technology Park and Area of Innovation. It is a successful innovation district, showcasing the advantages of integrated long-term planning. The Adlershof management company manages state of the art technology centres, runs an acquisition and business development team, as well as a centralized public relations and marketing department. All companies, science institutes, technology and business networks contribute to the management's business development activities and marketing campaign under one flagship logo. Collective efforts contribute to a strong high technology trademark, leveraging marketing power for high-tech SMEs and science institutes. Adlershof demonstrates the importance of creating an innovative ecosystem that provides space and technological resources and expertise for creativity, along with advisory services to help convert creative ideas into innovative business realities.

#### *Zone and park development phases*

The park and zone development process can be divided into six phases. The first, the diagnostics and demand analysis phase, involves the identification and review of national and regional strategies encompassing the level of industrialization, macro-economic and political stability, goals to be achieved by parks and zones, and identification of stakeholders and institutions relevant for park development. At this stage decisions need to be made whether the owner is a public or private sector entity and what type of developer and management is to be put in place.

Phase two involves policy design and planning, legislation, the regulatory functions of relevant state authorities, possible locations, and land use and zoning issues. At this stage it is also important to consider local environmental, economic and social aspects.

Phases three and four concern implementation and financing, operation and adaptation, and the business development services (government supported or PPP) to be provided. Necessary services include issuing business licences, resident and building permits, and company registration, among others. Other services can include training centres, laboratories, R&D facilities, investment promotion centres and a 'one-stop-shop' for submitting applications and paperwork.

The final two phases involve promotion and marketing and monitoring and evaluation. It is important to promote the park or zone at an early stage and adapt to the needs of investors. The management can introduce working environmental systems (ie industrial symbiosis). Regular monitoring and evaluation of the implementation of the IP strategy, as well as its social, environmental and economic impact helps to adjust the development strategy and regulation based on performance.

## **Mr. Guoliang WU, Senior Regional Cooperation Specialist, Asian Development Bank**

The CAREC programme is a partnership of 11 countries established with the aim of promoting connectivity, leading to accelerated economic growth and poverty reduction. Member countries agree to connect their infrastructure as a means to integrate trade and commerce. The programme is supported and funded by six multi-lateral institutions - ADB, EBRD, IMF, Islamic Development Bank, the World Bank, and UNDP.

The 2030 mission statement of the Central Asian Regional Economic Cooperation (CAREC) programme is “A regional cooperation platform to connect people, policies and projects for shared and sustainable development”. CAREC 2030’s operational priorities are divided into five clusters: Economic and Financial Stability; Trade, Tourism and Economic Corridors; Infrastructure and Economic Connectivity; Agriculture and Water; and Human Development. ICT cuts across all five clusters.

The ADB’s Kazakhstan and Kyrgyzstan diagnostic studies assess the cost-effectiveness of FEZs and SEZs for inclusive growth, evaluate whether they are achieving their objectives, and recommend guidelines on the basis of international rules and best practice. This is important since, in reality, many SEZs fail. Even in China, where some notable SEZs have been runaway successes, the failure rate runs to 70%. In China, SEZs were established in three stages. The first stage (1978-1992) was as a new institutional platform, stage two (1993-2006) a new economic growth pole, and stage three (2006-) a functional urban space. There were 6866 various economic parks in 2003, but 77% of parks have closed and 74% of land reclaimed. As India’s SEZs experience shows, replicating China’s success is difficult. This applies equally to Kazakhstan and Kyrgyzstan. The value added of the diagnostic studies is also improved transparency of institutional frameworks, empirical evidence concerning zones’ performance, methodology for evaluating zones’ effectiveness, and clarification of international rules concerning zones.

The diagnostic studies use several measures to assess FEZ and SEZ performance: Total Factor Productivity (TFP) and its proxies; exports and FDI and their correlation with TFP and thus wages; facilitation measures versus incentives (the latter justified only on grounds of ‘market failure’); incrementality; and transparency and policy evaluation.

### *Kyrgyzstan*

Kyrgyzstan has five FEZs: Leilek, Maimak, Bishkek, Naryn and Karakol. Kyrgyzstan offers tax preferences to firms located inside FEZs, and exemption from import tariffs, export tax, VAT, corporate income tax, and property and land taxes. Other FEZ features include partly streamlined regulations and procedures. The FEZs tend not to have links to the domestic economy.

Kyrgyzstan’s High Technology Park (HTP) was established in 2011 with a focus on three activities – software development, IT and software exports, and creation and provision of interactive service centres. The park is overseen by a nine-member steering committee comprising three members assigned by parliament, three by the prime minister, and three by the association of software designers. The prime minister appoints the chairman from the committee members. HTP firms are exempt from VAT, sales tax and CIT, and pay lower personal income tax (5%). As with the FEZs, there are few linkages to the domestic economy.

In terms of FEZ performance, total production accounted for only 1.2% of GDP in 2016 and around 1% of total employment. At Bishkek FEZ, 32% of production was exported in 2016. Overall, FEZ exports account

for 5.3% of total exports. Investment in Bishkek FEZ rose to US\$ 6 million in 2016. Average monthly wages in Bishkek FEZ are lower than the national average but manufacturing SMEs' average wages are higher in Bishkek FEZ. Exports as a percentage of production fell from 39% in 2010 to 32% in 2015.

### *Kazakhstan*

Like Kyrgyzstan, Kazakhstan's ten SEZs offer tax preferences such as exemption from import tariffs, export taxes, VAT, corporate income tax, and property and land taxes. Other SEZ features include financial contributions by government bodies, free land for up to ten years, provision of infrastructure facilities by the government, 'single windows' to deal with customs and tax matters, 'positive' instead of 'negative' lists, simplified procedures for recruiting foreign workers, export targets (or requirements) for the SEZs and local content targets (or requirements).

In terms of performance, SEZs in Kazakhstan accounted for only 0.8% of total exports in 2016. Only three SEZs have achieved their output, investment and jobs targets (the other seven have yet to take off). In 2015, FDI accounted for only 8% of total investment in SEZs. The ten SEZs' contribution to GDP, investment (FDI) and jobs is negligible. The SEZs are oriented largely towards the domestic market, which is insufficiently large to enable scale economies.

The limited success of zones in Kazakhstan and Kyrgyzstan can be attributed to the disconnect between objectives and approaches, a lack of coherence between development strategies and approaches towards economic zones and a gulf between policy and the changing global trade and investment landscape (where the rise of GVCs has reshaped global production and trade systems).

The guiding principles of Kyrgyzstan are that FEZs should be:

- Integral to economic development strategy
- Effective institutional and legal framework
- Financial assistance guided by fiscal prudence and transparency
- Close monitoring and periodic evaluation
- Judicious use of incentives
- Transparent, time-bound incentives
- Investment in basic infrastructure
- Investment in human capital
- Establishment of linkages with the domestic economy
- Protection of IPRs

The guiding principles in Kazakhstan are:

- Zones/parks are integral to coordinated and coherent economic development strategy
- Effective institutional and legal framework
- Role of zone/park policy in the context of the national economic development strategy
- Costs and benefits of incentives are transparent
- Close monitoring and periodic evaluation
- Judicious use of incentives
- Investment in basic infrastructure
- Transparent, time-bound incentives
- Collaboration between businesses inside the zones and businesses together with educational and research institutions outside the zones

- Inclusive and productivity gains and economic growth

The key competitiveness challenges are: cost-competitiveness (high wages, volatile exchange rates, high tariffs); productivity-linked cost-competitiveness (poor governance – corruption, bribery, lack of voice and accountability; energy and roads, customs and clearances; business rules and regulations) and productivity-based competitiveness (talent and low skills – low-quality education system, underdeveloped finance system; lack of technological capabilities and low efficiency of research and development infrastructure).

How can SEZs and IZs address competitiveness issues? They can enhance cost- and productivity-linked cost-competitiveness by overcoming institutional barriers. They can promote global value chains (GVC) linked investment; insert firms into GVCs, which will help to foster technology transfer, learning and spillover effects, and promote agglomeration economies to improve and promote smart industrialization. They can further promote learning, technological capabilities, and skills and strengthen domestic productive capabilities.

**Jean-Marc F. Blanchard, Ph.D., Executive Director, Mr. & Mrs. S.H. Wong Center for the Study of Multinational Corporations and Distinguished Professor, East China Normal University**

*Making a portrait from the dots: Challenges highlighted by China's Maritime Silk Road Initiative (MSRI)*

I applaud UNIDO, the Asian Development Bank and China for supporting focused work on the New Silk Road in order to examine how “Inclusive and Sustainable Industrial Development” is being and can be realized. Think tank and academic studies have been too general and there is too much emphasis on the strategic aspects of the New Silk Road and its sister the MSRI. I hope UNIDO will work with academics and think tanks to change this.

My expertise does not relate to the New Silk Road Economic Belt. Neither does it relate to industrial parks, zones, and cities. However, I do have knowledge to share from orchestrating three major academic conferences, three books, and two academic journal issues on China's MSRI.

In my talk, I touch upon five themes. The first I call “connecting the connectivity.” The second theme I term “catalyzing the agglomeration catalysts.” The third I label “absorbing the issue of absorptive capacity.” The fourth I call “financing the financing.” The fifth I term “developing sustainable development.” Given they are critical players in the MSRI, I focus on China and Chinese companies.

*Connecting the connectivity (the “Roads to Nowhere” problem)*

We are all aware that China's Belt and Road Initiative entails a large number of massive infrastructure projects across many countries. This is quite welcome given most countries participating in the New Silk Road and MSRI suffer from serious infrastructure gaps. These gaps are not just hard, but soft, with participant countries frequently lacking the laws and regulations needed to facilitate foreign direct investment, trade, people-to-people exchange, scientific and technology sharing, and so on.

In its reports UNIDO correctly emphasizes the need to connect the infrastructure—i.e., the parks, the transport nodes, and the urban centers—within countries, within regions, and outside regions. I agree

heartily with this thinking. Unconnected connectivity infrastructure means a slew of benefits will be missed.

Looking at various MSRI projects in Southeast Asia and South Asia as well as its activities in Africa and the Middle East, unconnected connectivity infrastructure and projects are a big issue for various political and economic reasons.

While “maps” may seem to show a pattern, it remains far from clear that airports, short and long distance roads, railways, logistics facilities, and the like will be well connected with one another. It also does not appear there are meaningful discussions going on between China and host countries or between MSRI participant countries in regions to ensure that connectivity infrastructure is properly connected.

It is well known that China has changed the name of its initiative from One Belt, One Road to the BRI. However, in practice, the risk of “One Hub with Many Spokes” rather than multiple hubs and spokes integrated into networks of other hubs and spokes remains.

If we look at the MSRI in Southeast Asia, South Asia, and Africa and the Middle East, we see a lot of infrastructure that is designed to funnel goods and inputs from China to participant countries and from participant countries to China. There is certainly value to this.

However, to maximize the value of the hubs and spokes and create networks of them they need to be developed in a manner that supports multidirectional inflows and outflows within countries, within regions, and globally. This is a matter of operational management, the diversification of project participants, and incentives.

To ensure that coordination and ideally cooperation obtains, there could be greater use of extant multilateral institutions such as the Association of Southeast Asian Nations and Gulf Cooperation Council to discuss the connectivity dots and how they might be best connected with one another. There is political value to this, too, as some regional institutions or members of some regional institutions feel they are being marginalized by the MSRI.

If we look at the MSRI, China seems reluctant for historical, political, and economic reasons to be more forceful in encouraging MSRI participants to look beyond themselves in their park, zone, and transport node ambitions even though it already is working with some on their development plans. This is not wise.

Given their expertise and experience, UNIDO and others could be useful resources for coordinating and facilitating collaboration and better planning designed to ensure that connectivity infrastructure is connected and that soft and hard infrastructure is properly connected.

### *Catalyzing the agglomeration catalysts*

In its review of the New Silk Road, UNIDO has rightly stressed the value of agglomeration economies. However, we have to keep in mind that there are multiple kinds of agglomeration. These can focus on nationality, kin, and sector, where sectors can be primary, secondary, or tertiary.

Agglomerations have the ability to draw in investment as well as boost economic development, but they do not automatically ensure success. I would argue that sectoral agglomerations are the most valuable

because they have a more inclusive nature. In contrast nationality or kinship based agglomerations which are more exclusive and thus do not favour wider connections and networks.

In this regard, what we see in MSRI countries in Southeast Asia and South Asia is not encouraging. Specifically, agglomerations often seem to be nationality or kinship in orientation, centered on a Chinese nucleus. These agglomerations entail Chinese companies working with Chinese suppliers, workers, bankers, sub-contractors, and service providers. This may maximize short-run benefits for China and/or Chinese companies. But it does not advance host country parks, nodes, and zones in a manner that produces greater benefits for China and Chinese companies over the medium- to longer-term. This is because specialization, host country upgrading, and the like are limited.

If we look at industrial parks, zones, and so on associated with China's MSRI in Southeast Asia, South Asia, and elsewhere, we see, as we would expect, host countries giving much attention to standard issues like tax incentives, "One Stop Shops," and in-park/in-zone regulatory environments. While such measures may have benefits, they do not ensure long-term success if host countries do not address larger business environment issues like workforce quality, policy predictability, and market growth. Taking "rock candy" as an analogy, a good nucleus helps but the surrounding solution must be proper, too. If it is not, then companies, Chinese and otherwise, will limit how much they invest or expand their operations.

The Chinese government has been encouraging its companies to work with local suppliers, make good use of local labour, and to support local development goals. However, this has been mainly rhetorical to date. I encourage it, UNIDO, and others to think of more concrete measures.

#### *Absorbing the issue of "Absorptive Capacity"*

In international business, we understand the concept of absorptive capacity as the ability of a host country or a foreign investor's partners to exploit meaningfully an investor's intellectual property, advanced technology, or process knowledge. We also can think of it as the scale or form of an investment fitting a country's ability to make good use of it.

Understandably, individual countries want to move up the value added chain, innovate, and possess the latest transport systems. No country wants to be a low-wage shoe maker or white goods assemblers forever or focus on arterial roads or long-haul cargo systems.

You observe this in the case of MSRI participant countries where there are hopes of becoming, for example, financial, technology, and alternative energy vehicle manufacturing centers. You see it in the case of many MSRI participant countries that want high-speed rail and extensive highway networks. However, the ability of host countries to absorb such projects is not always clear. This is not just a matter of technological/education level, but also having the right managerial, maintenance, and marketing structures in place to ensure parks, nodes, and zones are properly developed, run, and promoted.

Policymakers are quite reasonably attuned to economic diversification, especially when their countries rely on commodities vulnerable to fluctuations in demand and prices. Still, they need to be realistic lest they try to diversify in ways they are not ready to/able to do well.

The MSRI, in many cases, shows that the focus of Chinese companies' MSRI investment on energy, mineral, and food extraction and exploitation is working contrary to the goal of development through

diversification. Instead, it is concentrating host country economies on particular economic activities.

Still, I am a believer in the notion of comparative advantage and countries exploiting the local assets that they have, not that they wish they had. In this regard, China's MSRI can be quite beneficial because its investments are tailored to the absorptive capacity or comparative advantages of host countries.

In certain cases, though, we witness Chinese companies in the MSRI involved in projects exceeding the absorptive capacity of host countries. Of course, this is partly what the host countries want—Chinese companies are not forcing projects on them. Even so, the easy access of Chinese companies to credit and the lack of powerful profit considerations create a moral hazard that supports improper investments.

As experts in value chain and industrial development, it is my hope that UNIDO will work with host governments and China to ensure that projects are conceived in a manner that suits the absorptive capacity of the country as well as the nearby region.

### *Financing the financing*

When China first announced the New Silk Road and the MSRI in 2013, many countries expected that China would give them billions and perhaps tens of billions of dollars of “free” money or money with preferential conditions such as low interest rates or long repayment terms. The case of the MSRI indicates though that China's money is anything but free, not necessarily available in the quantities desired, or may not come with preferential terms. Indeed, some MSRI participant countries in Southeast and South Asia are finding that they are expected to repay their debts and, unable to do so, are having to transfer equity rights in projects and land to Chinese companies.

This has been called Debt Bondage by some, who unfairly paint China as the bad party, when problems have something to do with improper borrowings or problematic fiscal practices by host countries. In any event, the key issue is that financing for MSRI projects remains a serious issue.

To avoid excessive debts or debt bondage, the case of the MSRI suggests policymakers need to undertake proper planning to make sure their borrowings fit the economics of the projects they embrace. However, host countries also have to be far sighted. In some cases, “loss leader” parks, zones, and nodes may make sense if they can give birth to the nuclei that will encourage a virtuous cycle of agglomerations, connectivity, and investment.

To increase funding sources, support a broader range of projecting financing options, and inject competition into the process, I would strongly suggest that BRI participants and China bring more countries into the financing process.

Looking at the MSRI, we see strong interest by India, Japan, and Gulf Cooperation Council states in investing in or financing projects in relevant countries and regions. To my knowledge, little or none of this investment or financing has been coordinated and on occasion it actually is adversarial. I hope UNIDO and other bodies will marshal their research, convening, and coordinating capabilities to change this.

Partnership opportunities also exist at the company level. To date, at least as far as the MSRI is concerned, this has not been happening except in a somewhat superficial way with local or foreign companies supplying goods and services to Chinese ones but not as the main contractors or sub-contractors. This

limits the financial resources that can be marshalled for projects and the other benefits flowing from normal parks, zones, and nodes. Here, too, UNIDO and other bodies can play a role in identifying partnership opportunities, facilitating them, and maximizing their value.

#### *Developing Sustainable Development*

As I understand it, one of UNIDO's research goals has been to think about how to create parks, nodes, and zones that have a limited impact on the environment. The focus seems to be on minimizing externalities conceived in terms of waste such as, for example, greenhouse gases. In my view, attention also should be given to the input side of the equation. This has two aspects. One is the environmentally friendly design and development of parks, nodes, and zones. The second is building of parks, nodes, and zones that minimize the consumption of materials. The consumption issue itself has two aspects which are minimizing production inputs as well as transportation distances.

Research on China's MSRI suggests that many projects evidence insufficient attention to environmentally friendly development, reducing the consumption of materials, or minimizing transportation distances. Indeed, the impact on land, water, and so on seems to be a distant consideration. Regardless, it needs to be recognized that the Chinese government does encourage greater environment sensitivity by its firms.

#### *China's companies and sustainable development issues*

While the primary burden of ensuring sustainable development falls upon the host country which must prioritize it, establish adequate laws and regulations, and empower relevant ministries, Chinese companies could do more to support sustainable development. They need to go beyond publishing slick reports and thinking that meetings are sufficient. China can play a role here in supporting better behaviour not only through statements, but also limiting financing where there has been inadequate environmental impact assessment.

I argue that to promote Inclusive and Sustainable Industrial Development, there needs to be more attention to connecting the connectivity, catalyzing the agglomeration catalysts, and absorbing the issue of absorptive capacity. New pathways for financing and promoting sustainable development are needed too.

## **Panel Session 2: UNIDO strategic and operational framework on leveraging zones and parks and diagnostic study – Central Asian perspectives**

Moderator: **Ms. Olga Memedovic**, Deputy Director and Chief, Business Environment Clusters and Innovation, UNIDO

Speakers:

**Mr. Orkhan Saidov**, International Expert, UNIDO

**Mr. Shohin Sufiev**, Head of Main Department of Investment Policy and Regional Development, Ministry of Economic Development and Trade, Tajikistan

**Mr. Annashih Hojamyradov**, Ministry of Industry, Turkmenistan

**Mr. Oleg Rijichenko**, Chamber of Commerce of Uzbekistan

### **Ms. Olga Memedovic, Deputy Director and Chief, Business Environment Clusters and Innovation, UNIDO**

The UNIDO project diagnostic studies combine an overview of the macroeconomic situation in each country with analysis of the current situation of SEZs and park development. The studies provide recommendations and concrete technical cooperation project concept proposals

The macroeconomic analysis provides an overview of economic development, trends and challenges in the four countries. The analysis includes a summary of economic development and governmental policies, and comparison of the project countries according to selected economic, social and environmental sustainability indicators. On the economic dimension these indicators include trade, FDI, infrastructure and competitiveness and innovation. The social analysis looks at demographics, employment, labour force participation and the human development index. Environment sustainability is measured by indicators capturing each country's material footprint, energy intensity, and emissions of greenhouse gasses.

The World Bank classifies Azerbaijan, Turkmenistan, Kazakhstan and Uzbekistan as middle income countries, and Tajikistan and Kyrgyzstan as low income countries. All are landlocked, rich in natural resources, with similar economic, social and environmental challenges, and growing populations. Political and administrative decision-making powers tend to be centralised. Economic growth is dependent on raw materials and commodities exports. Weak infrastructure, weak business environments, poorly skilled workforces combine to discourage investment and hold back innovation and taking full advantage of the economic potential of agriculture, agro-food and tourism.

#### *Strategic framework*

Designed to assist governments, experts, and international institutions to plan properly the development of new parks or refurbishment of existing parks, the strategic framework provides a clear understanding of the principal concepts of parks, zones and other territorial units, their specializations, roles and expectations as development policy instruments. The framework identifies roles of various stakeholders, describes the main phases of planning and implementing a park or zone project, the key factors and minimum requirements for monitoring and evaluation of progress and outlines key sustainability performance standards (legal, regulatory, social, economic and environmental), against which parks can be monitored and evaluated, to contribute to SDGs. It describes cases studies of best practices in establishing

and managing of IPs for ISID and provides a checklist for decision makers.

### *Methodology*

The diagnostic studies seek to understand gaps and problems are important for promoting economic development. We reviewed more than 70 different studies and documents, prepared questionnaires and visited the four countries to interview stakeholders and collect relevant data. The methodology is based on a quantitative and qualitative analysis of data from primary and secondary sources, crosschecked against information provided by stakeholders during on-site visits and supplemented by insights into the legal and institutional framework from reviews conducted with the support of national consultants. Reviewed sources include government strategy plans and reports, laws and regulations, publications, information on the zones from official websites, reports of international forums and meetings, and relevant literature.

As part of the project, we organized workshops in 2016 and 2017 respectively in Baku and Dushanbe, and UNIDO experts conducted fact-finding missions to Azerbaijan, Tajikistan and Turkmenistan to meet with counterpart institutions, focal points, ministers and to discuss the diagnostic studies. We prepared a questionnaire for the diagnostic studies, which was shared with national counterparts. We interacted continuously with the CAREC Institute and with our experts. The draft studies were prepared in the second half of 2017 and at the start of 2018, along with the Strategic Framework.

Special economic zone are identified by geographical location, by the incentives offered, by the sectors represented and by the firms that they host. Analysis of SEZs is based on three different phases - before the zones, inside the zones and outside the zones. Before the zones refers to what has to be done to prepare the land, and environment to host a new zone or to understand why a certain environment is unsuitable for hosting a zone. It also concerns regulatory and economic environment for business. If the regulatory and local business environment is not in place, it will be extremely difficult to attract investors.

In our analysis, after looking at issues of strategic planning, positioning decision-making criteria, laws and procedures, national zone planning, location and development and other aspects, we looked inside the zones, with regard to composition, sectors, SME development, environment protection, legal/operational framework, including incentives and services available, administration structure, infrastructure. In terms of outside the zone, many zones around the world are accused of being disconnected from the local community, the region and even the country. When a zone is operating well there should be positive spillovers on the surrounding community, an impact on the workforce, promoting inclusion of women and young people and respect for the environment.

### *General observations on SEZs in Central Asia*

With few exceptions, SEZs in the region are young and not ready for evaluation. Full concepts of SEZs and strategies are to yet be defined and legal frameworks tend to be fragmented and sometimes incoherent. Political and administrative decision-making is strongly centralized, and involvement of local authorities is limited. Coordination among the institutions involved in zone establishment and operation is usually unsatisfactory for relevant institutions and stakeholders. In general, SEZ strategy and planning is not in place and the business and economic environment not sufficiently developed. Participation of private stakeholders in SEZ development is scarce. Poor national infrastructure and access to international transport corridors are also issues. The countries are dependent on the traditional markets of the Russian Federation and former Soviet Union republics. Their capacity to generate innovative technologies tends to

be weak, and the labour force comprises a large number of unskilled or poorly skilled workers. There is a low level of awareness of the role of SMEs and a limited financial and banking system.

On the positive side, there are many opportunities to better launch or revamp existing SEZs and to develop specialized sub-zones (i.e. textiles and machinery parks) inside planned or recently created zones. SEZs for SMEs in agribusiness could be a success in Central Asia. They may also boost women's and young people's employment. Above all, all countries would benefit from an on-site analysis of zones' economic and social environment.

The treatment of domestic and foreign investors and the regulation of currency exchange are key factors. When we were researching the four target countries, many studies cited poor relations between firms, especially SMEs and banks. This is a universal problem that is difficult to solve.

### **Mr. Shohin Sufiev, Ministry of Economic Development and Trade, Tajikistan**

The development of free economic zones (FEZs) in Tajikistan in 2008 was designed to attract domestic and foreign investment. The Government established four FEZs: Sughd, located in the north of Tajikistan close to the border with Kyrgyzstan and Uzbekistan with a territory of 320 hectares; Danghara, in the north-east with a territory of 520 hectares; Panj, in the south of the country with a territory of 400 hectares; and Ishkoshim, in south-east Tajikistan with a territory of 200 hectares.

The FEZs have specific purposes depending on their location. For example, Sughd's focus is innovation, Danghara has industry, and Panj and Ishkoshim are commercial. All FEZs have validity periods lasting 25 years. Together there are 62 firms located in the FEZs: 22 in Danghara, 24 in Sughd, 14 in Panj and two in Ishkoshim.

The FEZ tenant firms produce goods for export to Kyrgyzstan and Uzbekistan. Danghara is located in the central part of Tajikistan, from where firms can access the local market as well as other countries. The Government wants Panj and Ishkashim to reach markets in Afghanistan, Pakistan and India. Tajikistan's neighbouring countries have a collective population of around one billion. We can use the FEZs to reach these markets. Some neighbouring countries, like Afghanistan, have trade deficits and according to data, they import of goods and materials worth US\$ 4 billion while exports are worth US\$ 700 million. Many investors and firms want to come to Panj and export their materials and services to Afghanistan.

The Tax Code of Tajikistan has ten types of taxation. An entity or subject registered in the FEZs will be charged only two types of tax, social tax (25%) and income tax (from 8% to 13%). Employees pay income and social tax, while the entities/companies are generally exempt. The tax break has been in place for 25 years. Entities that purchase materials or raw materials for production intended for export will not pay custom duties and value added tax. No tax is charged either on exports of after production goods. There is no customs duty or VAT on imports of equipment or raw materials to the FEZs.

Zone tenants enjoy exemption from income tax for two years if they invest between US\$ 200,000 and US\$ 500,000, three years for US\$ 500,000 to US\$ 2 million, four years for US\$ 2-5 million, and five years for more than US\$ 5 million. Technical equipment and components, goods for projects approved by the Government, goods for construction of hydroelectric power stations, and especially important facilities for Tajikistan, and goods for processing cotton and aluminum are also exempt from VAT and customs duties.

Domestic and foreign investors have equal rights. Foreign investors are legally protected, have the right to use and transfer income abroad, free movement of property and information, protection of intellectual property rights, and the right to use natural resources.

Since 2008, Tajikistan has put in place the primary infrastructure in the FEZs, such as power supply, roads, water supply and soft infrastructure. According to the Law of Free Economic Zones of Tajikistan, land is rented at US\$ 1 per square metre per year. If an entity rents one hectare, they will be charged US\$ 10,000 per year. In FEZ Sughd, which was established on the territory of a former industrial park, we have built warehouses, allowing an entity or subject to sign a contract and start their business or production.

As mentioned, we have 63 firms in our FEZs producing goods and services, and exporting to neighbouring countries, including Turkey, China and Turkmenistan. The majority of exports goes to Kazakhstan, Russia, Kyrgyzstan, China, Afghanistan and Turkmenistan. We have exported dried fruits and nuts from FEZ Danghara to EU countries. There are large companies FEZ Sughd and Danghara, such as TajProf, which produces aluminum, SilkotBoya, a joint-stock company with Turkish and Tajik investment, and Aufen, a Chinese metal-construction company. Aufen is the biggest metal-construction company in Central Asia, with a production capacity of 120,000 tons of metal per year. TK Oil, also a Chinese company, produces 120 million tons of oil per year.

FEZs in Tajikistan are still a quite recent concept. The main problem for the tenants is the lack of infrastructure, such as warehouses and factories. Investors come, see the FEZ, they like the conditions and the location, but they want warehouses. To do this, the government of Tajikistan is introducing changes to the Law of FEZ of Tajikistan is to attract an operator company to build the FEZ infrastructure.

The National Development Strategy of the Republic of Tajikistan 2030 will be implemented in three stages. The first stage (2016-2020) will transition to a new model of economic development, focused on investments, export-oriented production and import substitution. The second stage (2021-2025) envisages a shift to intensive development based on investments. The third stage (2026-2030) will see a transition to the development of knowledge and innovation based production.

#### **Mr. Annashih Hojamyradov, Ministry of Industry, Turkmenistan**

My presentation dwells on national economic priorities and goals for industrial parks and zones in Turkmenistan. Thanks to reforms conducted by the President of Turkmenistan, the economy of Turkmenistan is rapidly developing. The industrial parks and the zones of Turkmenistan are supported by national policy based on innovation of economic development and are focused on the enhanced industrial capacity of Turkmenistan, improved export capacity and phasing out import dependency. The measures and targeted investment projects in priority economic sectors have raised the GDP of Turkmenistan to the level of a developed country. At this stage, the share of industry in GDP is around 35 per cent.

Turkmenistan has 11 free economic zones. Since the law on free economic zones was adopted in 1993, Turkmenistan has guaranteed free trade activities in free economic zones and for those stakeholders planning long-term cooperation. For entities located in free economic zones, we propose a specific tax regime and tax holidays. Entities with foreign investment shares represent more than 30 per cent of total investment. For the next three years, after the first three years of the return on investment, entities pay 50 per cent income tax. For the next ten years, the payment is 70 per cent income tax. There is exemption

from property tax for the first five years. After that the entities pay only 50 per cent property tax. In addition, there is no rent payment or rent tax for the first two years. There are also certain types of tax holidays in regard to FDI. The entities of FEZs, regardless of ownership type, including foreign companies, joint ventures, and domestic companies enjoy cheap water, oil, electricity and communal services.

In Turkmenistan, we have the national tourist zone Avaza, an important international project located on the Caspian Sea. Taking into account the potential for tourism in Turkmenistan, the zone gives not only the possibility for local tourism development, but also for other services related with tourism. Turkmenbashi sea port and the south-north transport road corridor ensure the connectivity of the area with other regions. In 2014, we established the first ever technology park in Ashkabat, bringing together academics, scholars, industrial, business and technology parks, research and development institutes and laboratories. The development of priorities of industrial subsectors are also harmonized according to the local/domestic labour market and industrial development.

The Government has developed and adopted national programmes on social and economic development of Turkmenistan for 2011-2030. One of the priority areas to increase competitiveness is the intensive development of oil and natural gas. Turkmenistan is located on energy corridors, including a transnational gas line, a joint initiative of Turkmenistan, India and Pakistan launched in December 2015. The length of the natural gas pipeline, to be completed in December 2019, is roughly 1840 kilometers. The average supply will be 33 billion cubic meters per year. A further 800-kilometer east-west gas pipeline was commissioned in December 2015 with an average supply of 30 billion cubic meters a year.

Turkmenistan has initiated huge energy and transport projects, including the construction of a gas pipeline to China, the Ashkhabad-Meshkhed railway, the new north-south transport corridor Kazakhstan-Turkmenistan-Iran. The new railway and new railway bridge in Taborat across the river Amu-Dar'ya, which will enhance trade between neighbouring states. We have completed a bridge over the railway near Turkmen dam Farab. We have also completed the construction of the first stage of the Asian railway Turkmenistan-Afghanistan-Tajikistan, with further access to Tajikistan and Kyrgyzstan.

This will enable Turkmenistan to transport cargo and services. Through the implementation of large industrial projects Turkmenistan will further integrate into the global economy. We intend to create the enabling environment and attract domestic and FDI, and to create high-level technological parks, to have competitive products, to have integrated and efficient use of Turkmenistan production and resource potential, which is also related with the establishment of new free economic or special economic zones. To maintain Turkmenistan's dynamic economic development, we should also focus on social economic development with particular emphasis on industrial development at the sub-regional level.

We have a special conceptual programme for the development of FEZs after 2020-2023. The programme gives opportunities for the economic development of Turkmenistan, ensures its independence and economic security, and ensures friendly relationships with all neighbouring countries.

**Mr. Orkhan Saidov, Project Associate, UNIDO**

*Brief introduction to industry in Azerbaijan*

In Azerbaijan, industry accounted for 40.1% of the GDP and employed 12.7% of the workforce in 2017. The

main industrial sectors of the country are gas, oil and its by-products, steel, iron, chemical and petrochemical products and textile. Oil and gas sector provides 45% of the country's GDP. Azerbaijan has huge and attractive resources of hydrocarbons and offers attractive exploration potential for additional discoveries. Besides oil and gas resources which have emerged as the key sector attracting foreign investors, Azerbaijan also has potential for development of agriculture and processing of agricultural products. Favourable climate conditions and fertile territory contribute to a rich variety of products, including cotton, grain, tobacco, tea, nuts, fruits and vegetables.

Azerbaijan's dependence on oil and gas left the country exposed when global prices of these commodities fell, contributing to two currency devaluations in 2015-2016. Addressing this vulnerability is behind the Government's goal to diversify the economy, develop the non-oil sector, stimulate the private sector, and create a favourable business and investment climate. The government is implementing programmes for the development of non-oil sectors, and the establishment of industrial parks and estates is one target. All programmes are implemented according to 'Development Concept Azerbaijan - 2020: Outlook for the Future'. The development of the non-oil sector is a key part of the development agenda, which envisages development of the IT, agriculture, industry, chemical, machinery industry, and construction sectors.

### *Special economic zones*

In 2009, the law on special economic zones of Azerbaijan was adopted. Modern regulations on industrial parks were adopted in 2013. In 2015, the law on industrial estates was adopted. Azerbaijan now has five types of zones and parks - industrial parks (IPs), industrial estates (IEs), high-technology parks (HTPs), agroparks and free trade zones (FTZs).

There are five industrial parks. Sumgait Chemical Industrial Park (SCIP) was created by order of the President of Azerbaijan in 2011. The total size is more than 500 hectares. The main products are chemicals used in agriculture, construction, packaging and the automotive industry. Balakhany Industrial Park (8 hectares), which means "clean city," is focused on recycling of plastics, electronics, and others. Mingachevir Industrial Park, established in 2015, has an area of approximately 15 hectares. The main areas are textiles and garment production. Garadagh Industrial Park was established in 2015 with total area of 72 hectares. The park has one resident firm dealing with shipping. Pirallahi Industrial Park was established in 2016 has total area of 30 hectares and has three tenant companies working in the pharmaceutical sector. Incentives are the same for all parks. Park residents are exempted for seven years from corporate income, property and land tax, VAT and customs duties for imported equipment.

There are three high technology parks (HTPs) – Mingachevir Hi-Tech Park, Pirallahi Science and Technology Park and Azerbaijan National Academy of Sciences (ANAS) High Technology Park. The benefits for HTPs are the same as for IPs.

In addition to industrial parks, Azerbaijan has four industrial estates at Neftchala, Masally, Hajigabul and Sabirabad, all managed and developed by Azerbaijan Investment Company (AIC). The objective of the industrial estates is socio-economic development in the regions, SME support, job creation, increase the share of industry in the economy, reduce infrastructure costs and enhance cooperation between enterprises. The benefits of the estates include comprehensive internal and external infrastructure, and special loans for entrepreneurship support. In contrast to industrial parks, industrial estates do not offer tax incentives. They provide only office facilities and infrastructure, but residents may apply for an investment promotion certificate that provides 50% exemption of income, property and land tax and a

seven-year exemption on VAT and customs duties for equipment.

There are four agroparks in Shamkir, Absheron, Yalama and Baku. In total 38 parks are planned in 26 regions. Most parks are private-sector led. The objective is to enhance exports and create national brands, increase innovative potential of SMEs in agriculture, create coordinated eco-systems between producers, workers and consumers, and achieve high-productive growth.

Alat free trade zone is located at the cross roads between the Middle East, Russia, China and Europe. It was created in 2016 and the first phase of construction is completed. The objective of Alat FTZ is diversification from the oil and gas sector, to serve regional demand and enhance exports, develop HR potential, create new economic activities, and attract FDI.

Initiatives and future steps are tourism and recreational zones, IEs and IPS in the regions, agroparks (in total 38 in 26 are planned), and HTPs within the universities.

Constraints to park and zone development are access to finance, lack of a qualified workforce, economic fluctuations, legislative constraints, and lack of awareness.

The main aim of upgrading the existing industrial parks and zones is to improve resource and energy efficiency and productivity, as decreed by the state development programme of development of industry for 2015-2020, the strategic roadmap on the development of the national economy and the strategic roadmap on the development of utilities.

**Mr. Oleg Rijichenko, Head of the Foreign Investment Attraction Department, Chamber of Commerce of Uzbekistan**

In February 2017, the President of Uzbekistan signed the Decree “Uzbekistan’s development Strategy for 2017-2021” outlining five key development spheres:

1. Perfection of state and social construction
2. Ensuring rule of law and reforming the judiciary
3. Development and liberalization of the economy
4. Development of the social sphere
5. Ensuring security, interethnic harmony and religious tolerance, the implementation of a balanced, mutually beneficial and constructive foreign policy.

The third sphere, focusing on further strengthening of macroeconomic stability and the maintenance of high rates of economic growth, is divided into three objectives: 1. Enhancing the economic competitiveness and openness; 2. Modernization and diversification of key industries; 3. Expansion of foreign economic activity, and attraction of foreign investments. To support these objectives, under the leadership of President Shavkat Mirziyoev, the Government of Uzbekistan is planning to implement 650 investment projects with a total value of US\$ 40 billion.

Uzbekistan has 16 FEZs, including seven pharmaceutical zones and one focused on fish-farming. It is planned to set up a FEZ focused on tourism and sport as well as innovative technoparks. The FEZs are designed to attract investment, primarily FDI, and create modern production facilities. They support

modern production processes in the agricultural sector, as well as textiles, chemicals, food, electrical engineering, machine building and automobiles, building materials and other industries. They deepen the localization processes of producing high technology products based on local raw materials and on the basis of establishing close cooperation between enterprises of the FEZ and the country as a whole. Overall, there are 69 investment projects in economic zones worth US\$ 512.4 million. The FEZs have created 4000 jobs and attracted US\$ 290.7 million in FDI.

Incentives and preferences include exemption from all taxes and customs and free use of land. These benefits are granted to the residents of FEZs depending on the amount of investment they make. Investors providing between US\$ 300,000 and US\$ 3 million are eligible for a tax holiday and exemptions from three to 10 years. The more you invest the more incentives you get. The same decree for free zones includes customs incentives for investments between US\$ 3 million and US\$ 3 million dollars. Investment in equipment and machinery can be exempt from customs fees and duties. The same goes for construction materials.

It is intended to improve the performance of existing FEZs by introducing qualifications for FEZ administration, strengthening the role of state bodies in attracting foreign investments and supporting FEZ and building engineering and communication network in FEZ. Uzbekistan intends to learn from international experience, and adapt and transfer best practice to local FEZs.

Uzbekistan has demonstrated macroeconomic stability. Economic growth and stability was provided through active investment policy, structural reorganization of the economy, introduction of new technologies in transport and communication. Investment policy is aimed at diversification of the economy through technological industries, such as machinery, oil and gas, electronics and IT, textiles and pharmaceuticals.

One of the most important instruments to accomplish these goals is FEZs. Uzbekistan's Law on Free Economic Zones dates from 1994, and according to the Law, the first free industrial economic zone in Navoi was developed in 2008 by presidential decree. Others followed in Angren and Djizak. In 2016, Decree No. 853 on promoting activities of free economic zones reclassified the existing zones as Free Economic Zones.

### Panel Session 3: Lessons from China's experience and opportunities for the future

Moderator: **Mr. Douglas Zeng**, Expert on Special Economic Zones, World Bank

Speakers:

**Mr. Yin Hong**, Vice Director, Jinqiao Development Management Committee

**Mr. SUN Xinhua**, President, Shanghai Foreign Investment Development Board & Shanghai Overseas Investment Development Board

**Professor Shen Guilong**, Deputy Director, Institute of Economics, Shanghai Academy of Social Sciences

**Professor Meng Guangwen**, Tianjin Normal University

**Mr. Lei Shuguang**, Director, Administrative Committee of Shanghai Baoshan District City Industrial Park

**Mr. Li Zhaojie**, Vice Chairman of China (Shanghai) Pilot Free Trade Zone Administration

#### Mr. Douglas Zeng, Expert on Special Economic Zones, World Bank

*China's SEZ experience – what can we learn?*

SEZs are demarcated geographical areas where the rules of business differ from those that prevail in the rest of economy. They offer a special regulatory regime, public services, infrastructure and fiscal regime. The direct benefits of SEZs include employment generation, foreign exchange earnings, FDI, tax revenue and export growth. Indirect benefits include acting as a test and demonstration area for wider economic reform, technology transfer and adoption of modern management practices, export diversification and enhanced trade efficiency of domestic firms, cluster facilitation, urban and regional development, and even green growth.

In China, SEZ normally refers to large, multifunctional and comprehensive zones (such as Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, Shanghai Pudong New Area, Tianjin Binhai New Areas, and the recent Xiongan New Area). In a broad sense, the term not only refers to the dozens of comprehensive SEZs but also the economic and technological development zones (ETDZs), free trade zones (FTZs), export processing zones (EPZs), and high technology industrial development zones (HIDZs).

Zones have had a profound impact on economic development in China. Seven SEZs, 54 HIDZs and over 2000 industrial parks contribute 22% to GDP, 46% of FDI, 60% of exports, provide 30 million jobs, (60% of which for women), and act as crucibles for major reforms (i.e. land, labour and tax reforms). Shenzhen SEZ, China's FDI gateway, was a test bed for economic reform. Shenzhen was the first city in China to carry out reforms in land tenure, labour market, public administration, financial system, SOE and tax and the first to set up equity and FX markets. In 1978, the GDP per capita of Shenzhen was US\$ 89. By 2015 it had risen to US\$26,071. The population stood at 300,000 in 1978 and 10.8 million in 2015.

Suzhou Industrial Park (SIP) is successful not just from an economic perspective but also in terms of urban and social development. Industrial output of SIP in 2013 was over RMB 400bn, of which over 55% was high technology industrial output. In the same year, foreign investment reached RMB 2bn and the number of employees stood at 700,000. SIP's success can be attributed to a strong vision and commitment from the leadership, pilot reforms, high-level pragmatism, flexibility and autonomy of the local governments/zone management, clear goals and vigorous benchmarking and competition, skills, technology learning and

upgrading and strong linkages with the domestic economy.

The World Bank, IFC, UNIDO and GIZ are leading the drive for eco-parks. In 2017, these organisations jointly published the *International Framework for Eco-Industrial Parks*. Countries such as South Korea, Denmark, China, Japan and Germany have been at the forefront of implementation. Meanwhile, zones need to embrace the challenges of Industry 4.0, which requires better ICT infrastructure, connectivity, skills, regulatory frameworks for the data ecosystem and intellectual property rights.

### **Mr. Yin Hong, Jinqiao Development Management Committee**

Established in 1990 as a national level economic and technological development zone, Shanghai Jinqiao Economic & Technological Development Zone (henceforth Jinqiao) covers an area of 40.92km<sup>2</sup> within the Shanghai Pudong New Area. An integral part of the zone is the Shanghai Hi-tech Development Zone, a key contributor to Shanghai's development as an innovation hub with global influence. Jinqiao forms part of the China (Shanghai) Pilot Free Trade Zone. It has an export and processing zone under special customs supervision. Industries in the zone include automotive and automotive accessories, electronics and IT, home appliances, food and pharmaceuticals. In 2017, the industrial output from the zone was worth RMB 234.5bn, generating revenue worth RMB 720bn revenue and RMB 52.4bn in tax.

Based on the government's "Made in China 2025" initiative, a plan to transform China into a leading manufacturing power, and use the synergy between free trade zone and innovation policies, Jinqiao will support strategic transformation of its industries in line with global industrial development trends. The goal is to make Jinqiao the core area for advanced manufacturing and producer services, a cluster of innovation and business start-ups with greater innovation capabilities, and a leader of coordinated development of both industries and urban functions with a better environment for both businesses and living.

Jinqiao's achievements include investment facilitation (streamlined business registration), trade facilitation ('single-window' services), financial reform (cross-border capital pool), on-going and ex-post regulation (credit system and market supervision), human resources support (permanent residence and residence registration), and industrial support (emerging financial services). Jinqiao also focuses on urban renewal and explores life-cycle approaches to land administration and set limits on industrial access.

### **Professor Shen Guilong, Deputy Director, Institute of Economics, Shanghai Academy of Social Sciences**

#### *Major problems in the development of industrial parks in China*

As areas with high economic output, industrial parks have played an important role in the development of cities and regions in China. Cities with relatively fast development in China are also cities with a relative concentration of industrial parks. For example, as one of the most economically developed cities in China, Shanghai has established some of the earliest export processing zones, and financial and trade zones with high quality and economic returns. However, with the rapid expansion in the number of parks and zones, three outstanding issues need attention.

First, the development of industrial parks lacks clear goals and plans. Some cities have no clear long-term

plans for industrial park development. Preoccupied with attracting investment, some parks have ignored sustainability issues, leading to environmental damage. This has hindered transformation and upgrading of parks. Either large polluters are reluctant to relocate, or it is difficult to remove underperforming companies.

A second issue relates to similarities between industrial parks. This reflects not only parks of different cities but also parks within the same city. The leading industry in Zhangjiang Hi-Tech Park is biopharmaceuticals, which is also the leading sector in Suzhou Industrial Park. The 22 parks in Shanghai's Dazhangjiang district host similar industries, adversely affecting the creation of distinctive and complementary agglomeration areas. For example, at least 12 parks within the Dazhangjiang district are focusing on IT and at least nine parks are oriented towards high-end manufacturing. Other areas in the bio-industry and new energy industries also have similar park developments.

A third issue is cooperation and coordination between industrial parks. For example, there are ten state or provincial level economic parks in the Fuzhou New District. Three parks are under direct control of the municipal government and the other seven are directly managed by districts and counties. In terms of the work in the new district, the industrial parks currently mainly cooperate with the Fuzhou New District Office to submit situation reports and data. Fiscal taxation and management belong to each district and county. The parks hope they will be able to use the management reform of the Fuzhou New District Administration to rationalize the Fuzhou investment promotion system and reduce competition within Fuzhou.

In response to these problems, a number of policy documents have been issued; "Guidance Opinions on Strengthening the Environmental Protection of Industrial Parks," issued by the environmental protection department of the Ministry of Industry and Information Technology; and "On the Further Advancement of New Industrialization," jointly published by the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Environmental Protection and the Ministry of Commerce.

The development of parks must be guided by an industrial development strategy based on rigorous research. The types of enterprises permitted into the park should be consistent with this strategic plan. Second, park development should strive for a unique agglomeration advantage. To this end, it is necessary to identify a park's comparative advantage. Third, it is important to rationalize institutional mechanisms for park development and avoid conflict between the investment promotion department and the planning department within the park. Fourth, it is necessary to remove failing companies from the park based on an assessment of their performance according to a set of indicators. As an example, Wujiang District in Suzhou collected statistics on enterprises' occupation of land area, total input and output, energy consumption, taxation, to assess their productivity capacity.

**Mr. SUN Xinhua, President, Shanghai Foreign Investment Development Board & Shanghai Overseas Investment Development Board**

*Sharing China and Shanghai's experience in utilizing foreign investment*

In 2017, the situation of China's absorption and utilization of foreign capital was relatively severe. The State Council of the People's Republic of China has successively introduced 42 measures to attract foreign capital. Various departments and localities have intensified their work and issued detailed rules for

supporting policies to ensure that specific measures are put in place, with the aim of creating an excellent business environment and optimizing investment promotion.

In 2017, 35,652 foreign-invested companies were established in China, a year-on-year increase of 27.8%. The value of actual foreign investment was RMB 877.56 billion, a year-on-year increase of 7.9%. Foreign capital reached a record high and rose to second in the world. Foreign-funded enterprises account for less than 3% of the country's total, but represent nearly half of foreign trade, a quarter of the profits of industrial enterprises above designated size, and a fifth of tax revenue.

Shanghai is the largest city in mainland China attracting the majority of foreign investment and with the largest number of foreign companies. In 2017, Shanghai absorbed US\$ 40.194 billion in contracted foreign capital. As of January 2018, Shanghai has 629 multinational corporate headquarters, including 71 in the Asia Pacific region, 347 investment companies, and 427 foreign-funded R&D centres. Foreign-funded enterprises account for more than a quarter of the city's GDP, more than a third of tax revenue, and about two-thirds of imports and exports and industrial output value.

#### *Outbound Investment in China and Shanghai in 2017*

Outbound investment is an important part of China's opening up to the outside world. Last year, the government issued guidelines, and proposed six types of overseas investments to be encouraged in fields including infrastructure, production capacity and equipment, high and new technology and advanced manufacturing, energy and resources, agriculture, and services, encouraging enterprises to actively participate in the Belt and Road Initiative (BRI) and international capacity cooperation.

China's investment cooperation with countries along the Belt and Road has steadily advanced. For 2017, Chinese enterprises invested in 59 countries along the Belt and Road, totaling US\$14.36 billion. According to data from the Ministry of Commerce, since the BRI was first proposed in 2013, direct investment from China has reached US\$60 billion, in many fields such as agriculture, manufacturing, and infrastructure.

#### *The Shanghai Free Trade Pilot Zone*

The Shanghai Free Trade Pilot Zone (FTPZ) was established in 2013 as a major initiative for China to deepen reform and expand opening-up on a test basis. Institutional innovation is the focus. The FTPZ covers 120.72 km<sup>2</sup> and includes four special customs supervision areas (28.78 km<sup>2</sup>), i.e. Waigaoqiao Free Trade Zone, Waigaoqiao Bonded Logistics Park, Yangshan Bonded Port Zone, Shanghai Pudong Airport Comprehensive Free Trade Zone, and the Lujiazui Financial District (34.26km<sup>2</sup>), Jinqiao Development Zone (20.48km<sup>2</sup>), and Zhangjiang High-tech Park (37.2km<sup>2</sup>). The zone was a location for a number of "firsts" in China: the first wholly foreign-owned hospital in the country; the first wholly foreign-owned financial investment company; the first foreign reinsurance brokerage company.

#### *Sustainable and responsible investment*

The Chinese Government actively guides enterprises to carry out sustainable and responsible investment. In May 2017, the Ministry of Environmental Protection and other three ministries jointly issued the *Guidance on Promoting a Green Belt and Road*. The Guidance systematically expounds the importance of building a green Belt and Road, and requires environment-friendly advancement in "policy coordination", "facilities connectivity", "unimpeded trade", "financial integration" and "people-to-people bonds". It firmly

adheres to the philosophy of innovative, coordinated, green, open and shared development and embraces the "Silk Road Spirit", which advocates peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit. The Guidance proposes to establish a system of eco-environmental cooperation and exchange and to formulate and implement eco-environmental risk prevention policies and measures.

#### *Shanghai Foreign Investment Development Board (Invest Shanghai)*

Shanghai Foreign Investment Development Board (Invest Shanghai) was established by the Shanghai Municipal People's Government in 1999. As the only city-level cross-border two-way investment promotion agency, it provides Chinese and foreign investors with professional services ranging from investment policy and law advice, to consultations and match-making and project site selection. Invest Shanghai has established ten overseas offices - in Los Angeles, London, Frankfurt, Gothenburg, Osaka, Singapore, the Czech Republic, India, Thailand, and the United Arab Emirates. Shanghai Investment Promotion Partnership (SIPP) - a communication mechanism co-founded by 15 Shanghai-based investment promotion agencies with Invest Shanghai taking the lead - has attracted the participation of 100 chambers of commerce and investment promotion agencies from nearly 40 countries and regions. Besides, Invest Shanghai has signed cooperation agreements with 30 foreign investment agencies based in Asia, Europe, the Americas, and Africa. Thus, it can be said that Invest Shanghai has established a global two-way investment promotion network.

Invest Shanghai has maintained close cooperation with foreign consulates in Shanghai and investment and trade promotion agencies, sharing investment information, co-advancing investment projects, and jointly organizing investment promotion activities. Invest Shanghai is willing to take full advantage of its global network and resources to further strengthen investment cooperation with countries along the Belt and Road, especially Central Asian countries, and UN agencies, with a view to contributing more to industrial development and upgrading in Shanghai and Central Asian countries.

#### **Professor Meng Guangwen, Tianjin Normal University**

##### *Tianjin Economic & Technological Development Area (TEDA): Achievements and lessons learned*

Free Economic Zone are instruments to realize economic and political goals by enjoying degrees of economic and administrative autonomy. FEZs are geographically and administratively restricted and can be differentiated by their industrial sector focus. They can be divided into two main types – regime and territorial. Regime type zones are specialized, such as high-technology parks. Territorial zones can be further divided into enclave and open zones. Enclave zones include export processing zones, free trade zones, free ports and SEZs. Examples of open type zones include science-based industrial parks, free financial zones and free tourism zones. Territorial zones have high quality infrastructure and administrative facilities. Regime FEZs grant benefits to firms as long as they fulfil certain criteria.

##### *Tianjin Economic & Technological Development Area (TEDA)*

TEDA is an enclave and remote zone based on a port. It benefits from and supports the implementation of a coast-oriented industrial strategy, clearly defined geographical boundaries, favourable backup conditions and communication and transport facilities. Aside from the main zone, TEDA has a network of sub-zones

around Tianjin, for instance the Chemical Industrial Park of TEDA, Xiqing Microelectronics Industrial Park of TEDA, and Huayuan High-Tech Industrial Development Zone.

TEDA's development had three distinct periods. First, TEDA emerged as an urban industrial zone. It then evolved into comprehensive Economic and Technological Development Zone. Finally, TEDA developed into one of the new generation of FEZs with an urban zone, sub-zone and overseas zone supporting upgrading in the industrial sector.

By 1998, TEDA's accumulative total of approved foreign-funded enterprises, foreign capital and projects with foreign investment amounted to over US\$ 10 million. In 1992, GDP of TEDA was RMB 1.3bn, and export value was RMB 160m. By 2016, this has increased to RMB 305bn and RMB 16.8bn respectively. In 2016, TEDA was among the top performing EDTZs according to rankings on sustainable and comprehensive development, and indicators on economic development, R&D, industrial cooperation and public services.

As an instrument for national and regional developmental policy, TEDA has valuable lessons for FEZs. Crucial to its success was the international-standard infrastructure and the policy of open investment and trade. Its location and link to a port was also instrumental. TEDA fostered industrial upgrading and labour-, capital- and technology- intensive industries. TEDA created a strong brand that helped to attract investment from large trans-national corporations. Finally, TEDA's development strategy included the so called "1-2-3 model" whereby every US dollar input should attract two US dollars of investment and yield three US dollars in output.

#### **Mr. LI Zhaojie, Vice Chairman, China (Shanghai) Pilot Free Trade Zone Administration**

Since the 1990s, Shanghai has established ten special customs supervision areas, including a port, a logistics park, and six export processing zone. Waigaoqiao Free Trade Zone was approved in 1990. The first export processing zones, Songjiang Export Processing Zone (A Zone) and Jinqiao Export Processing Zone were approved in 1999. Waigaoqiao Bonded Logistics Park followed in 2003, Yangshan Bonded Port Area in 2005, Pudong Airport Comprehensive Bonded Zone in 2009, and Songjiang Export Processing Zone (B Zone), Qingpu Export Processing Zone, Caohejing Export Processing Zone, Minhang Export Processing Zone and the Jiading Export Processing Zone in 2006.

#### *Planning stage*

In 2009, to integrate the resources of existing zones, parks, ports, and the airport, the "Three Districts and Three Ports" was established, creating a unified management to administer the four special customs areas. In 2011, the 11th World Free Trade Zone Conference was held in the Waigaoqiao Free Trade Zone. During the conference, Chinese and foreign participants discussed the establishment of a free trade zone in Shanghai.

In 2012, the State Council issued the "Guiding Opinions on Promoting the Scientific Development of Special Customs Supervision Areas of Customs" with the aim of gradually integrating existing export processing zones, logistics parks, and port areas.

In 2013, the China (Shanghai) Free Trade Pilot Zone (CFTPZ) was established as an instrument to deepen economic reforms and pursue the country's process of opening up. The zone includes Waigaoqiao Free

Trade Zone, Waigaoqiao Logistics Park, Yangshan Port Zone and Pudong Airport Comprehensive Zone, with a planned area of 28.78km<sup>2</sup>. In 2014, the State Council approved the expansion of the CFTPZ, to include the Lujiazui Financial District (including the Expo Area), the Jinqiao Development Zone and the Zhangjiang Hi-Tech Zone, with a planned area of 91.94km<sup>2</sup>. After expansion, the total area of Shanghai Free Trade Zone is 120.72km<sup>2</sup>.

#### *Major achievements*

By the end of 2017, 52,000 new enterprises had been established since the launch of the Pilot Free Trade Zone. In 2017, the zone achieved sales of RMB 171bn, and industrial and commercial revenue of RMB 67bn. The value of imports and exports reached RMB 920bn, accounting for 28.6% of the city's total. Despite occupying only 10% of its area, the Pilot Free Trade Zone has created 75% of GDP of the Pudong New Area, and contributes a quarter of Shanghai's GDP whilst only covering 2% of the city's area.

The zone established an operational system that complied with the standards of trade facilitation rules. It introduced measures to facilitate innovation and trade and implemented a "single window" management system. The zone set up a financial innovation system that could adapt to a more open environment and effectively prevent risks, and links with Shanghai's international financial centre.