


A Study on the Development Strategy of Huizhou's Korea-China Industrial Park

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Abstract

The 2015 Free Trade Agreement between South Korea and China included the establishment of Korea-China industrial parks. Three cities (Yantai, Yancheng, and Huizhou) were confirmed as Chinese industrial park. Among the three cities in China, Huizhou will be developed through the "Yuegang'ao Greater Bay Area" plan as China's Silicon Valley with nine main cities in Guangdong province. Therefore, Huizhou's Korea-China industrial park also has great growth potential. The advantages of the Huizhou Korea-China Industrial Park are as follows. First, Huizhou's infrastructure is good and cheaper than other major cities in China and is becoming better. On the other hand, Huizhou has two development zones of national level; the Zhongkai National High-tech and Dayabay National Economic and Technological Development Zones. Zhongkai government said that it would develop social infrastructure and services further such as railways, roads, education, and medical services. Second, the geographical advantage of Huizhou is good to use. The Huizhou Korea-China industrial park can be a stepping stone for exporting to other countries and entering the Chinese market. Third, it offers a good environment for research centers and start-ups as well as large corporations. This study's purpose is to investigate the development of this industrial complex.

Keywords: *development strategy, Huizhou, Korea-China FTA, Korea-China industrial park*

Introduction

China has been using the "reform and opening up policy" to integrate its economic growth with the global economic system. Recently, it has been actively utilizing the policy to accelerate economic reform. After the official launch of the government in 2013, the central government emphasized that China will continue to pursue economic reform. In particular, China has maintained a positive stance on the promotion of free trade agreements (FTA). In 2013, following "A Series of Crucial Issues on Deepening Reforms," China continues to pursue building a high-level global FTA network.

After that, in 2015, the State Council announced "Several Opinions on Strategies to Accelerate the Implementation of Free Trade Zones", maintaining an active stance on the FTA drive. Korea is an important partner of China's in economic cooperation and development. The Korea-China FTA is also regarded as the most comprehensive and high-level FTA among those that China has concluded. In addition, it is the first to include concrete contents on economic cooperation with China. In particular, it includes provisions on local economic cooperation (Article 17.25) and the establishment of industrial complexes (Article 17.26). Therefore, it increased the possibility of expanding cooperation with local governments.

After the commencement of the Korea-China FTA negotiation in May 2012, the agreement came into effect in December 2015. Through this FTA, China has become closer to the domestic market, and the terms of trade have improved because of tariff reduction and tax exemption.

However, because of the deployment of a THAAD anti-missile battery to the U.S. Forces Korea in 2016, Korea-China relations have been adversely affected, and since some time, negotiations on the Korea-China industrial park(KCIP) have not progressed as desired. After bilateral tensions eased in 2018, the Korea-

China industrial park was approved for formal establishment after the State Council's ratification. In the future, cooperation between the two countries will actively take place in the industrial parks.

In particular, Huizhou, one of the three Chinese cities designated as Korea-China industrial parks, is in a large-scale economic zone with eight other cities in Guangdong—Shenzhen, Guangzhou, Zhuhai, Foshan, Zhongshan, Dongguan, Jiangmen, and Zhaoqing—including Hong Kong and Macau. The State Council has decided to establish a new open economic system with these cities in the Pearl River Delta by 2035, and the development of the blueprint began in January 2019. With this development plan, Huizhou will develop further, and Huizhou's Korea-China industrial park will also have great growth potential. Therefore, this study aims to examine the practical systematic development plan through an analysis of the Huizhou Korea-China industrial park.

LITERATURE REVIEW

The Korea-China FTA was concluded in October 2015, through the Memorandum of Understanding between the Ministers of Commerce of Korea and China. Research on the Korea-China FTA is mainly focused on the ripple effect on Korean companies and industries after the Korea-China FTA and corresponding strategy studies. Baek and Jang (2018) identify the significant effect of stock prices at the time of the conclusion of the Korea-China FTA. This suggests that Korean firms initially were negatively influenced by the Korea-China FTA; however, they have changed positively when the agreement comes into effect. The Korea-China FTA may have both positive and negative effects on Korea. Therefore, in-depth research analysis is necessary to induce positive effects.

Three cities in three provinces (Yantai in Shandong, Yancheng in Jiangsu, and Huizhou in Guangdong) were identified as Chinese industrial parks, and in Korea, only the Saemangeum area was confirmed as a Korean industrial park. Therefore, the research on Korea-China industrial Park in Korea focuses mainly on the Saemangeum industrial park, focusing on the industrial park creation, development strategy, and legal research.

A little Korean studies on the industrial parks in China have been conducted. Kim (2015) analyzes the history and related policies of Yancheng and Yantai KCIP in China, and other industrial parks in China. Yoo (2018) presents the characteristics and vision of the Yancheng industrial park by analyzing the background of the industrial park and its status. Chinese scholars are studying KCIP relatively more actively. Luo et al.(2017) uses SWOT analysis to compare the construction of industrial parks in Yancheng city and Yantai city. However, most of the contents are related to the recent status of the KICP, and there is no in-depth analysis. In particular, papers are lacking for, the most recently designated, the Huizhou except for publicity materials and statistics published by the local governments.

This paper focuses on the Korea-China industrial park in Huizhou, which belongs to China's Silicon Valley, "Yuegang'ao Greater Bay Area" (or simply the Greater Bay Area) in the Zhu River area, which was established after the signing of the Korea-China FTA.

The Major Industries of Huizhou Korea-China Industrial Park

Major industries

(1) *Electronic information communication*

These are industries such as display, mobile internet, cloud computing, and smart terminal in the electronic information communication industry. Huizhou will foster the display and internet industries that both South Korea and China have developed. The main industries and commodities are as below.

First, the display industry focuses on panel displays and LED lighting, and is pursuing related businesses such as computing chips, display panels, and display boards. Second, the mobile Internet industry is developing automobile electronic terminals and is attempting to build a mobile internet terminal industrial ecosystem by Korean capital. The cloud computing industry evolves around platforms such as education, administration, healthcare, community, and enterprise services. The software and information service industries are enhanced with focusing on the research and development of software products. It also develops in key areas such as design, terminal manufacturing, platform construction, and application services using big data. Third, the smart terminal industry develops the smartphone handset manufacturing industry by fostering custom manufacturing, mobile phone assembly and completion, and innovative mobile phone manufacturing. It also fosters advanced sensor parts for mobile phones, such as electronic compasses and gyroscopes.

(2) Chemical industry

The chemical industry includes the petrochemical and new complex and polymer materials industries. It encourages Korean and Chinese companies to invest jointly in chemical businesses in industrial complexes.

It aims to develop the new complex and polymer materials industry extensively, accelerating its push to build a key zone in the Huizhou Korea-China industrial park in the Dayawan petrochemical district, thus creating a world-class petrochemical base.

First, it will promote industrialization of industries advanced production, and integrated development of low- and high-end products, focusing on the petrochemical, new materials, and specialty chemicals industries. Second, it develops materials such as high-performance materials, high performance fibers, composite materials, and non-metallic materials.

Emerging industries

Emerging industries include advanced smart manufacturing, automobile and equipment manufacturing, energy and environmental protection, and marine industries. The main industries are as below.

First, the advanced smart manufacturing industry focuses on the production of advanced smart equipment such as industrial and service robots. The goal is to foster core parts and processes such as advanced numerical control systems, motors, bearings, specialist industrial and special robots, new energy vehicle assembling processes, automotive electronic control systems, and engine control systems. Second, the automobile and equipment manufacturing industries are trying to foster new energy vehicles and their parts as new growth areas in the field of new energy vehicles by researching and developing key technologies. Third, the energy and environment protection industry are to introduce, cooperate, develop and strengthen industrial technologies in water use, resource circulation, and environmental plants in Korea. Fourth, the marine industry intends to assist in industrial cooperation in the fields of marine equipment manufacturing, marine life, marine fisheries, marine tourism, marine processing and manufacturing, marine ecosystem environmental protection, and seawater utilization.

Service business

Based on the transportation advantages of Huizhou and on Korea's advanced service culture and capital, Korea and Huizhou intend to strengthen cooperation in various service fields such as culture, medical care, and tourism. The main industries are as below.

First, the modern logistics industry will strengthen links between ports and airports, accelerate the construction of important infrastructure such as a bonded logistics complex, global Internet express shopping center, and a Korea-China (Huizhou) product exhibition center. Second, the healthcare industry will focus on rehabilitation medicine, beauty molding, biopharmaceuticals, and healthcare, and attract excellent medical institutions to Korea to promote cooperation with local companies.

Third, the culture creation industry focuses on animation design, internet game development, video production, and the wedding industry.

The Introduction of Representative Industrial Parks

Huizhou has two development zones of national level: Zhongkai National High-tech, Dayawan National Economic and Technological Development Zones.

Zhongkai National High-tech Development Zone

The Zhongkai High-tech Zone, established after the approval of the State Council in 1992, is a national development zone named after Liao Zhongkai, the pioneer of the modern democratic revolution. The area of jurisdiction covers about 500km² and the population is almost 500,000 (Huizhou city website). Located in the southeast of Guangdong, it is in the center of three international cities—Guangzhou, Shenzhen, and Hong Kong. The Zhongkai High-tech Zone is approximately 30 km away from Huizhou Airport, 140 km from Guangzhou Airport, and 100 km from Shenzhen Airport. The ports are also relatively close: approximately 50 km from Huizhou Port and 60 km from the Shenzhen Port.

(1) Economic condition

In 2018, this region's gross domestic product rose 2.1% to 63.13 billion yuan (2018 Huizhou Statistical Yearbook). The growth rate of the large enterprises in the manufacturing industry is 0.1%. The manufacturing gross of large enterprises fell by 0.9%. Fixed asset investment increased by 23.6%. Fixed asset investment in manufacturing fell 1.8%. The total tax revenue (including customs tax) decreased by 4% to 14.39 billion yuan.

(2) Service business and consumer goods sales

Sales of consumer goods are on the rise in 2018. This is presumably because of an increase in disposable income. The total retail sales of social consumer goods amounted to 7.04 billion yuan, an increase of 11%. Wholesale sales of goods rose by 4.9 percent to 20.92 billion yuan. Retail product sales rose 11.5% to 4,070 million yuan. Accommodation sales rose 5% to 180 million yuan and restaurant sales rose 5.2% to 410 million yuan (ZhongKai High-tech zone website).

(3) Real estate and Electronic power

Investment in real estate development grew by 35.9% in 2018 and that in infrastructure grew by 8.6%. Electricity consumption of the society as a whole was 4.51 billion kWh, an 8.9% increase. Industrial power generation increased by 7.2% to 3.490 billion kWh. Coal for total industrial energy consumption increased 6.1%. Overall, real estate is also developing and the amount of power generated is increasing, indicating that there is potential to grow urban industry (ZhongKai High-tech zone website).

Dayawan National Economic and Technological Development Zone

The Huizhou Dayawan Economic and Technological Development Zone was established in May 1993 with the approval of the State Council. It is located in southern Huizhou, Guangdong. It is the only petrochemical base in the provincial triangle that is well-equipped, with an investment environment and cooperation with other cities.

It attracted excellent companies by producing an investment attraction map in advance. Huizhou invested 180.7 billion yuan in 89 projects, among which the world's top 500 companies and industry leaders accounted for nearly 90%(Dayabay Government website). With the participation of electronic and automobile companies such as BYD, Dongfeng and Honda, the Dayawan area is developing petrochemical, electronic information, auto parts and equipment manufacturing, and port logistics.

The Dayawan area Petrochemical Complex is the largest petrochemical industry in the country with 22 million tons of refined oil and 2.2 million tons of ethylene(Dayabay Government website). Airports are relatively close; it takes 30 minutes by car from Dayawan to Huizhou Airport, and 90 minutes to both Shenzhen Bao'an Airport and Hong Kong International Airport.

(1) Economic condition

In 2018, the total regional production amounted to 68.57 billion yuan, an increase of 18.3%. The increase in large manufacturing enterprises was 63.3 billion yuan, up 23.8%. The ratio of primary, secondary, and tertiary industries is 0.3:82.7:17. The share of manufacturing in GDP increased from 77.3% to 80.9% in 2017. The total revenue (including custom tax) increased by 41.3% to 46.52 billion yuan.

(2) Service business and consumer goods sales

The service industry is growing steadily, and in 2017, because of the rapid growth of wholesale and financial businesses, the annual service industry increased by 5.1% to 10.1 billion yuan, accounting for 20% of the gross domestic product (GDP). In 2018, cargo traffic volume in all regions increased by 29.8% to 67.65 million tons. Total container cargo volume increased by 22.3% to 253,000 standard containers(National bureau of Dayabay statistics).

(3) Real estate and finance

The financial industry is operating steadily. As of the end of December 2018, the balance of foreign currency deposits of financial institutions of Dayabay development zone increased by 16% to 5,080 million yuan and the balance of foreign currency loans of financial institutions rose by 13.1% to 54,190 million yuan.

(4) SWOT Analysis

Strength: Various industries develop, rich in tourism resources in Guangdong province. The city has a long history, culture develops.

Weakness: No international airport and harbor, only domestic airport and harbor, less competitive than Yancheng and Yantai in this area. To get to Huizhou from Korea, it takes 4 hours by plane from Incheon to Shenzhen, then 2 hours by bus from Shenzhen to arrive in Huizhou. Regional limits on economic exchanges and cooperation with Korea.

Opportunity: There are Hong Kong and Shenzhen around, the economy is rapidly developing in Guangdong province. Many companies in the region are developing, too.

Threat: Samsung company withdrew from Huizhou in 2019. The focus of the local economy has been adjusted to Shenzhen, so the government and people's interest in Huizhou are less than before.

CONCLUSIONS

Since the signing of the Korea-China FTA, Korea-China industrial parks were opened for the first time in 2018, and opportunities for expanding trade between Korea and China have emerged. Among the three shortlisted cities, Huizhou is likely to emerge as an investment-worthy region centered on the newly planned Chinese-style Silicon Valley, "Yuegang'ao Greater Bay Area." This study is meaningful in examining the Korean business environment and Korea-China economic cooperation through the analysis of Huizhou's Korea-China industrial park.

The Huizhou Korea-China industrial park will be able to coexist with both Korean and Chinese companies when the following points are taken into consideration.

First, the industrial park should be systematically planned through sufficient close consultation between the two countries' heads. In Korea and China, it is necessary to clarify the organization of and tasks to be completed at consultations in an efficient manner, and to establish a specialized department that can resolve the disputes in the industrial park.

Second, Korean reliable and promising companies should be attracted to form a part of China's industrial supply chain in the form of Korean company cluster in China. This cooperation should be strengthened by entering the Chinese supply chain with Korean excellent technological prowess in traditional manufacturing sectors such as information and communication, automobiles and electronics. Huizhou city need to attract more companies.

Third, there are excellent products and technologies in Korea, and there are platforms and markets in China. Particularly, because the industrial structure of China is changing rapidly, Korean companies must be able to quickly adapt to change. The Korea-China FTA and KCIP should be used to find advantages in new fields such as next-generation information technology, big data, cloud computing, autonomous operation, smart manufacturing, new energy and new materials. The advantages and development strategies of Huizhou have the following drawbacks. There are no direct flights between Incheon International Airport and Huizhou in Korea. Huizhou does not have international airports. There are domestic airport and harbor only. Therefore, Korean companies must take a four-hour flight from Incheon Airport to Shenzhen in Guangdong, and then take the express bus for two hours from Shenzhen Airport to Huizhou. Yancheng and Yantai, which have other Korea-China industrial parks, have international airport and harbor. Such traffic restrictions are a major factor impeding Huizhou's interactions with Korea. Therefore, to take advantage of the geographical location of Huizhou, it seems necessary to construct an international airport and harbor, or to provide better tariff benefits to Korean companies.

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