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Logistics Parks in China: Case Studies and the Role of the Government

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Logistics Parks in China: Case Studies and the Role of the Government

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EXECUTIVE SUMMARY

As China has become the “world’s factory,” leading some economists to predict that its GDP will exceed that of the US in 2020, logistics parks have begun to play a more important role in constructing an effective supply chain. The number of these facilities has dramatically increased. In fact, one estimate is that there are about 1,000 in the country with another 300 projects to be launched.

Our study focused on the applications of the multi flows of such parks in China, namely Lingang Logistics Park and Suzhou Logistics Center, as examples of two types of logistics zones, with special emphasis on the Value-Added Tax privilege of the corporations. Additionally, given the huge number of logistics parks established by governments in China, we discussed this role and the interactions among local, central, and even foreign governments, providing suggestions.

Suzhou Logistics Center is the logistics park of Suzhou Industrial Park (SIP). Located in the eastern part of China, it is convenient for traffic due to its position at the center of “Yangtze River Delta.” The specific features of Suzhou Logistics Center are:

- **Material Flow:** “SZV mode” is the most important feature. SZV is the airport code of Suzhou airport. The goods in this mode do not have to go through the Custom clearance processes until they reach SIP. It takes only seven hours from the cargo landing at Pudong International Airport of Shanghai to reach the SZV warehouse. On the other hand, direct delivery to SZV also saves 10%-50% of costs.
- **Financial Flow:** It is a bonded logistics center and cargo using the center is eligible for a tax benefit.
- **Information Flow:** The center employs Global Position System (GPS), providing on-time freight information to enterprises.
- **Knowledge Flow:**
 - The center employs a ‘Blue-Stamp’ residence ID to attract non-Suzhou residents, allowing them to enjoy the same social insurance and education of their children as Suzhou residents do.
 - Hong Kong University and University of Science and Technology, Suzhou has jointly established the HKU SPACE Global College in Suzhou, providing high quality human resource and research in the logistics field.

Lingang Logistics Park of Yangshan is where China has been constructing a deep-water port to turn Shanghai into an international shipping center. The goal of the project is to become the No. 1

container shipment port in the world upon its completion in 2020. The *potential* features of Lingang are:

- **Material Flow:**
 - Aside from a marine hub, Yangshan plans to link to the Euro-Asia Trade Bridge, starting at Lianyungang and running through China, eventually ending in the city of Rotterdam in the Netherlands. The cargo from Lianyungang to European countries can use this route instead of Indian Ocean marine shipment, saving 20% in transportation costs and taking half the time.
 - A new generation of inter-modal vessels between the Yangtze River and marine shipment has been developed to streamline aqua-shipment, overcoming the difficulties of marine vessels being unable to enter YTR and the inland river ships being unable to resist the sea tides.
- **Financial Flow:** Yangshan will be the freest port in China. The policies of bonded zone, export processing zones, and Bonded Logistics Park will be applicable.
- **Information Flow:** Under the decree of Bonded Logistics Park, a computer system must be set up to link to Customs and governments for better control of the operation.
- **Knowledge Flow:**
 - The estimated job opportunities created by Yangshan will reach 800,000 in 15 years.
 - Lingang will take advantage of the availability of high quality human resources in Shanghai.
 - The transportation network buildup will expand the human resource pool.

Some of China's logistics parks have been granted this bonded function, meaning in terms of tax, these bonded zones are regarded as foreign areas. The export goods entering them are eligible for a Value-Added Tax (VAT) refund. The goods delivered from overseas are bonded by Customs for import tax, while goods shipped from bonded zones to mainland China are treated as imports. Without a bonded zone setup, the suppliers ship the components to Hong Kong to get the VAT rebate and back to China for assembly. The Hong Kong trip applies to every stage of the supply chain. Both Suzhou Logistics Center and Lingang Logistics Park have been granted the bonded function. We compared the three scenario analyses (Hong Kong, Lingang, and Suzhou) for raw materials, components, and assembly (finished goods) and came out with some interesting findings:

- The cost of capital of VAT accounts for 0.49% of the revenue line to manufacturing
- Hong Kong shipment needs 2-3 weeks while bonded zones take only 2-3 days
- The savings of raw materials, components, and assembly from Hong Kong shipment over VAT payment are 90%, 76%, and 67%, while using
 - Lingang saves 95%, 84%, and 80% of VAT cost, respectively.
 - Suzhou saves 95%, 91%, and 86% of VAT cost, respectively.

Due to the nature of logistics parks with their infrastructure needs and the practice of politics and economics in China, most important logistics parks are set up by governments or joint ventures between public enterprises and international companies. Local governments believe that the logistics parks will accelerate economic development in their areas. Meanwhile, the construction has resulted in intensive competition and lack of strategic alliances.

- **Suzhou Logistics Center**
 - Joint venture between Singapore and Chinese governments
 - Singapore government ceded its stake from 65% to 35% after 5 years mainly because of the competition of a nearby industrial park supported by the local government
- **Lingang Logistics Park**

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- 1st phase by Shanghai Government and 2nd phase by joint venture between foreign companies and government-run businesses
- Stimulated the regional competition and union of nearby government to compete with Yangshan port and park
- **Issues of Government Roles:**
 - Administration Area vs. Economic Area: The unit of economic development is an administration area and the setup causes local protectionism.
 - Lack of Regulation and Coordination Mechanisms: The central government releases guidelines instead of establishing regulations to rule out the regional interaction, lacking a compulsory effect.
 - Lack of positioning and local competitive advantage: The cities of one region planned to build the same kind of construction such as cross-ocean bridges and logistics parks.

Recommendations: We proposed recommendations to foreign entities, the central government, and local governments. Foreign entities should understand political processes and build up network in China. The central government should establish the overall strategies, revise the officer performance indicator, while the local governments have to strike a balance between cooperation and competition in order to assure the success of their logistics parks.