

Research on the Construction of Overseas Industrial Parks along “the Belt and Road” in China

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Abstract: In recent years, China’s construction of overseas industrial parks along “the Belt and Road” has been developing rapidly, and the construction of overseas industrial parks has become an important part of China’s “the Belt and Road”. Through the combination of theory and practice, this paper analyzes the current situation of the construction of overseas industrial parks along “the Belt and Road” countries, summarizes the problems existing in the construction of overseas industrial parks along “the Belt and Road”, and puts forward some countermeasures and suggestions for the problems.

Keywords: The belt and road; Foreign direct investment; Overseas industrial parks

1. Current Situation of Investment Cooperation between China and the Countries along “the Belt and Road”

In September and October 2013, during his visit to Central and Southeast Asian countries, General Secretary Xi Jinping put forward the initiative to jointly build “the Silk Road Economic Belt” and “the 21st-Century Maritime Silk Road”, which is of great significance to promoting international investment cooperation among countries along “the Belt and Road”.

1.1. China’s direct investment in countries along “the Belt and Road”

China’s direct investment in countries along “the Belt and Road” has been growing for many years. The direct

investment in 2015 reached 18.9 billion US dollars, a year-on-year increase of 39%, accounting for 13% of China’s total foreign investment. Statistics show that, in 2016, a total of 77 cooperative zones with a certain scale were established in 36 countries, with a total of 1,467 enterprises entering the zones, generating an output value of 66.51 billion US dollars, paying 2.53 billion US dollars in taxes and fees for the host countries, and providing 197,000 jobs for the locals. In 2016, Chinese enterprises achieved a total foreign direct investment of 170.1 billion US dollars, a year-on-year increase of 53.7%. Although the amount of foreign direct investment in 2017 declined, the proportion of foreign investment in the countries along “the Belt and Road” still increased. The countries along “the Belt and Road” will become the key areas for China’s foreign investment.

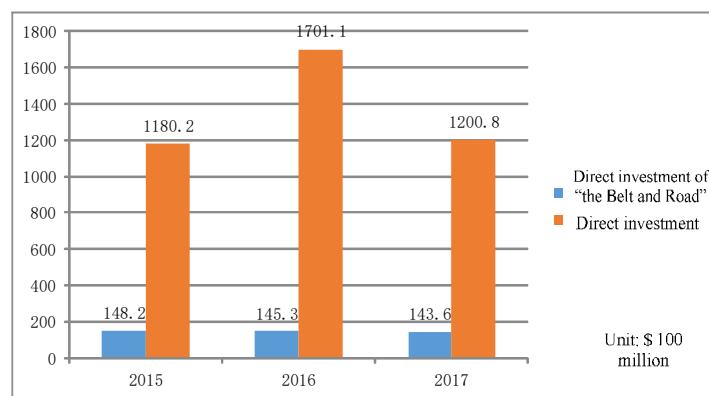


Figure 1. China’s non-financial foreign direct investment situation

Data Source: Statistics collation of the Ministry of Commerce

1.2. China’s foreign contracted projects in the countries along “the Belt and Road”

The turnover of China’s foreign contracted projects broke through 100 billion US dollars at the first time in 2011. In recent years, the turnover of foreign contracted projects has increased year by year. The growth rate in 2014 experienced a short-term decline, but “the Belt and Road Initiative” brought new market opportunities to China’s foreign contracted industry. In 2015, the turnover of the projects exceeded 150 billion US dollars, and the

growth rate reached 8.2%. At the same time, Chinese enterprises signed 3,987 new contracts for foreign contracted projects in 65 countries related to “the Belt and Road”. The newly signed contracts amounted to 92.64 billion US dollars, accounting for 44.1% of the total amount of new contracts contracted for foreign projects in China over the same period. Until 2017, the number of new contracts signed by Chinese enterprises along “the Belt and Road” continued to rise. In the same period, the proportion of new contracts signed by China’s foreign contracted projects also increased year by year.

Table 1. The Situation of Foreign contracted Projects of China’s Enterprises along “the Belt and Road”

Time	Contracts for foreign contracted projects (copies)	New contracts amount (\$100 million)	The proportion in the amount of newly signed contracts of China’s foreign contracted projects in the same period (%)	Turnover (\$100 million)	The proportion in the total amount in the same period (%)
2015	3987	926.4	44.1%	692.6	45.0%
2016	8158	1260.3	51.6%	759.7	47.7%
2017	7217	1443.2	54.4%	855.3	50.7%

Data Source: Statistics collation of the Ministry of Commerce.

1.3. Labor cooperation between China and the countries along “the Belt and Road”

With the promotion of the opening-up policy in the new era, China’s total investment in the countries along “the Belt and Road” increased from 480 million US dollars in 1995 to 17.65 billion US dollars in 2015, with an average annual growth rate of 27.2%, accounting for about 24% of China’s total foreign investment. After “the One Belt and Road Initiative” was launched in 2013, China’s choice of investment countries became more extensive, and the scale of international labor cooperation has been expanding. From 1995 to 2015, the labor cooperation scale between China and the countries along “the Belt and Road” increased from 58,000 to 153,000, with an average annual growth rate of 77.2%, accounting for about 31% of China’s total global labor cooperation. The trend of open economy driving labor cooperation and expansion will continue.

2. The Construction Situation of China’s Overseas industrial Parks in the Countries along “the Belt and Road”

2.1. The scale of China’s overseas industrial parks under the “Belt and Road Initiative”

In order to actively promote the construction of industrial parks, the business sector has established 19 national-level overseas industrial parks twice. In 2006, China established the first overseas industrial park in Pakistan, the Haierlupa Economic Zone. After 9 years of development,

due to various reasons, some industrial park projects have been withdrawn from the host country, and the new industrial park has also passed the assessment to become a national-level overseas industrial park.

In recent years, the Chinese government has been encouraging and supporting competitive enterprises to invest in overseas diversification in order to promote win-win cooperation with the host countries. Through the platform of overseas industrial parks to attract more Chinese-funded enterprises to carry out overseas business activities in the host countries, it not only provides a large number of employment opportunities for the host countries, but also creates a considerable amount of tax revenue for the host countries. At the same time, it can also drive the foreign exchange export of Chinese enterprises, expand overseas markets, solve the problem of overcapacity at home, and promote the common development of China’s enterprises and the host countries’ economy.

2.2. Development characteristics of China’s overseas industrial parks under “the Belt and Road Initiative”

2.2.1. Construction mode

China’s overseas industrial parks in the countries along “the Belt and Road” adopt the principle of “government guidance, enterprise decision-making and market operation”. Under the guidance of Chinese government, we should build overseas industrial parks with enterprises as the main body and promote mutual benefit and win-win situation on the basis of market operation. The investment decisions of enterprises are mainly judged from the market conditions, investment environment and preferential policies of the host countries, which is a new mode

for the government to support the overseas investment of enterprises.

2.2.2. Selections of investment location

From the perspective of investment location selection, most of China's existing national-level overseas industrial parks are located in undeveloped regions such as Southeast Asia, Africa and Eastern Europe. Except for the Ku'a Science and Technology Industry and Trade Zone in Venezuela, the other 18 overseas industrial parks are located in the countries along "the Belt and Road", including 5 Southeast Asian countries, 1 South Asian country, 4 Russian countries, 1 Eastern European country and 1 South Korean country. The six industrial parks in Africa have also become an important starting point for the construction of "the Belt and Road" in the African region.

2.2.3. Construction subject

The construction of China's overseas industrial parks along "the Belt and Road" is basically based on the model driven by enterprises and the government. The main construction of enterprises is generally divided into the establishment of wholly-owned Chinese-funded overseas industrial parks, the joint construction of Chinese-funded overseas industrial parks and multi-enterprise joint venture overseas industrial parks, and the joint venture overseas industrial parks between Chinese enterprises and host countries.

3. Problems of the Construction of China's Overseas Industrial Parks in the Countries along "the Belt and Road"

3.1. Insufficient preferential policies

Since the construction of overseas industrial parks is mainly based on enterprises, enterprises in construction areas usually consult with the local government, thus the enterprises and the government can sign a cooperative development agreement between the two parties. Therefore, most overseas industrial parks have always been the "enterprise-to-government" model. Although the enterprise-led model is conducive to improving the enterprises ability to manage their own operation and becoming the main body of the market, construction enterprises often need to contact the host government's policies to solve individual problems while seeking preferential treatment. This actually increases the difficulty and cost of the construction of overseas industrial parks.

3.2. Difficult financing

In terms of financing channels, first of all, China's domestic financing channels are not very rich. China's capital market and corporate bond market are not perfect, and it is almost impossible for small and medium-sized en-

terprises to issue bond financing. The primary consideration for enterprises financing is bank load. However, the overseas enterprise of a enterprise can only obtain loans from domestic banks through the capital increase of the domestic parent enterprise. Domestic enterprises must provide financing or guarantees to meet with overseas enterprise, and timely financing needs are relatively difficult. Moreover, these newly established overseas investment enterprises have not established good market reputations. It is also difficult for domestic banks to understand the actual business operations of overseas enterprises, so they usually do not actively provide loans to overseas branches. Because the fixed assets are abroad, it is difficult to obtain credit appreciation from domestic commercial banks. The construction funds of the park are mainly self-financing.

3.3. Different culture

In the transnational business activities of enterprises, due to cultural differences between China and the host countries, commercial projects cannot be carried out smoothly. Although most of the host countries in which China's existing foreign trade and economic industrial parks are located have cooperative relations with China, the cultural differences between the host countries and China still seriously hinder the development of overseas industrial parks. Although many host countries are geographically adjacent to China, there are certain similarities in kinship and culture, there are indeed many differences in ideology, beliefs, ways of thinking, and people's lives, work, and habits.

3.4. Lack of publicity

Overseas industrial parks are still a new type of transnational business model. Its investment promotion work is usually carried out mainly by construction enterprises through market-based means to promote the development of overseas economic activities of relevant domestic enterprises. For enterprises intending to enter relevant overseas industrial parks, it is not very attractive to build enterprises in overseas industrial parks, because the promotion of the entire industrial parks is not very strong, or the investment and management advantages are not fully realized in the industrial parks. It is easy to create information asymmetry between the parks and those enterprises that need to enter the parks. The enthusiasm and initiative of domestic enterprises have not yet been mobilized, resulting in a large gap between the investment plan and the actual situation.

4. Solutions to Problems

4.1. Striving for preferential policies by making use of "the Belt and Road"

The construction of overseas industrial parks is a relatively high level of economic and trade cooperation. The Chinese government and foreign agencies should make use of diplomatic resources to strengthen the political, diplomatic and economic support for overseas industrial parks. Through various diplomatic channels, we should help build good communication and coordination mechanism between enterprises and host countries, actively participate in policy dialogue at all levels, and strive for more abundant resources and more preferential policies for overseas industrial parks. We also should take advantage of the bilateral cooperation agreement signed by China and the relevant countries and organizations of “the Belt and Road” to avoid double taxation agreements, investment protection agreements and other government guarantee mechanisms, clarify the legal status of overseas industrial parks in host countries, protect the interests of investment enterprises in overseas industrial parks, and provide convenient clearance support for enterprises.

4.2. Increasing investment along “the Belt and Road” to solve financing problems

In order to solve the problems of difficult overseas financing, the management measures for overseas industrial parks should be revised to strongly support the construction of industrial parks. We should strengthen the excellent rewards for completing investment promotion work and subsidies, and provide financial loans and other preferential policies for financing needs. In order to better play the role of the platform of industrial parks in cluster overseas investment, under the premise of adhering to the enterprise-led and market-oriented operation, it is recommended that the government increase the subsidies reasonably and appropriately tilt the investment in the industrial parks along “the Belt and Road”. We should further support the transfer of excess production capacity from China to overseas industrial parks, and increase support for the research and development of overseas industrial parks, so as to promote the transformation and upgrading of enterprises in parks.

4.3. Paying attention to “the Belt and Road” cultural training to realize localized management

In order to enable enterprises to carry out investment activities more smoothly in the host countries, enterprises should strive for common ground while reserving differences in the construction of overseas industrial parks, deepen their understanding and recognition of the host countries’ culture, strengthen cross-cultural training, develop with the host countries and realize localized management. Enterprises in parks should try their best to narrow cultural differences, overcome “unaccustomed” culture and accelerate the pace of localization of the cooperative areas. The enterprises entering the parks should adapt to the laws and cultures of their host countries as

soon as possible and seek common ground while reserving differences on the basis of cultural differences.

4.4. Strengthening government guidance with the help of “the Belt and Road Initiative”

Most of the China’s overseas industrial parks are located along “the Belt and Road”. As an effective part of the cluster overseas investment of small and medium-sized enterprises, it has become an important part of the “the Belt and Road” and has promoted the development of China’s foreign economic and trade. In order to better play the role of overseas industrial parks, it is suggested that the government help and guide the construction enterprises to improve the service function and industry orientation of overseas industrial parks, establish and improve the investment guidance and investment environment early warning system of overseas industrial parks, assist overseas industrial parks to promote investment through various platforms, and strengthen and guide the feasibility research on overseas industrial parks before investment projects, expanding insurance coverage and avoiding credit risk and investment risk. The layout of overseas industrial parks should be linked with the adjustment of domestic industries to provide opportunities for the transfer of domestic surplus capacity. At the same time, it is necessary to pay attention to the local industries and resource advantages of the host countries, adjust parks plannings in a timely and appropriate manner, and promote the stable and long-term development of overseas industrial parks.

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