Capacity Building-Oriented Cooperation between China and BRI Countries*

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Abstract: *This paper identifies the international industrial capacity cooperation led by the Chinese government and participated by Chinese companies under the Belt and Road Initiative (BRI) as "inclusive industrial capacity cooperation with a capacity-building orientation." BRI cooperation demonstrates brand-new characteristics compared with previous international direct investments in terms of participants, investment areas and results. BRI cooperation aims to enhance local development capacity, promote economic development, increase exports, and improve industrial ecosystems. In the long run, international industrial capacity cooperation under the BRI helps achieve sustainable development in China and BRI countries for multi-win results. Yet risks and challenges also warrant attention and require countermeasures.*

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When a country gains economic clout, it will start to acquire technological, managerial, branding and other advantages, and tends to invest overseas to explore markets and control intermediate inputs and the supply chain. Since 2000, China has seen strong momentum in the growth of overseas direct investment (ODI). The amount of China's ODI increased from 916 million US dollars in 2000 to 12.26 billion US dollars in 2005, 55.91 billion US dollars in 2008, 107.84 billion US dollars in 2013, and 196.15 billion US dollars in 2016. In 2015, China became a net capital exporter. In 2015 and 2016, China's net investment outflow amounted to 10.06 billion US dollars and 62.44 billion US dollars, respectively.

There is a positive theoretical and temporal correlation between the amount of ODI and economic development. As a late-moving economy, China invests overseas in significantly different ways from the ODI of developed countries in history, particularly for the "Belt and Road" Initiative (BRI) and international industrial capacity cooperation under the BRI. Previous studies on the topic of BRI have focused on the BRI's implications and strategic significance, China's trade in goods with BRI countries, the BRI's implications for economic and trade relations between China and involved countries, institutional mechanisms for industrial capacity cooperation, among other aspects. Unlike these studies, this paper investigates the new characteristics of international capacity cooperation under the BRI, i.e.

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"inclusive industrial capacity cooperation with a capacity-building orientation."

1. Implications of Inclusive Industrial Capacity Cooperation with a Capacity-Building Orientation

Amid the transformations in the layout of the international division of labor and industrial structure of developed countries, the rise of China's manufacturing industry has turned China into a key participant and pioneer of international industrial capacity cooperation. From September to October 2013, Chinese President Xi Jinping called for the "New Silk Road Economic Belt" and the "21st Century Maritime Silk Road" cooperation initiatives, which are collectively referred to as the "Belt and Road Initiative" (BRI). On March 28, 2015, the National Development and Reform Commission (NDRC), the Ministry of Foreign Affairs and the Ministry of Commerce jointly released the *Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road*, which laid out specific goals, principles and plans. Unlike the approach followed by developed countries and their multinational companies in history, China follows an inclusive approach of industrial capacity cooperation with a capacity-building orientation under the BRI.

China's approach differs from traditional international direct investment in terms of the "capacity-building orientation" and "inclusiveness."

1.1 Capacity-Building Orientation

For a country, developing capacity for economic growth matters much more than short-term investment-driven growth. Despite the positive economic growth effect in the short run, direct investments from developed countries may cause developing countries to fall into the "middle-income trap" or "low-income trap." While the development of natural resources fuels economic growth in the short run, technology innovation has a more significant and lasting growth effect. Except for a few oil-exporting countries, most high-income countries are not blessed with abundant natural resources.

Michael Porter (2012) divides production factors into primary and advanced production factors. Primary production factors refer to endowed factors or those that can be acquired with a limited amount of investment, such as natural resources, climate, geographical location, nonskilled labor and semiskilled labor, and access to finance. Yet primary production factors are relatively easy to replace. For instance, a change in demographics may lead to an oversupply of labor. Countries with a greater cost advantage may emerge. Natural resources may become exhausted. All these changes may cause a country to lose its advantage based on primary production factors. Since primary production factors are endowed resources, we refer to the comparative advantage based on primary production factors as resource-based comparative advantage.

Advanced production factors, on the other hand, can only be acquired with extensive investments and decades of technology development. Such factors include modern infrastructure, educated workforce, and universities and research institutes. Advanced production factors are embedded in systems, institutions (enterprises and universities), and highly qualified professionals, which are more difficult to replace and of greater importance to a country's industrial and economic development. Therefore, we refer to such comparative advantage based on advanced production factors as capacity-based comparative advantage.

According to developmental economics, less developed countries have to spend almost all their incomes, and even more, on subsistence. Without sufficient resources for economic takeoff, less developed countries struggle to jumpstart their stagnant economy. The role of government in industrialization has been controversial. Judging by the experience of many rich countries, including the United States, Japan and the Four Asian Tigers some believe that government intervention plays a pivotal role in the early stage of industrial development. Others, however, reckon the picking-winner

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strategy is likely to fail due to government failure (the inability to identify appropriate policy goals and instruments and effectively implement policies), particularly in developing countries.

Yet the potential harms of government failure do not suggest that fewer interventions are always an optimal choice. There is a trade-off between government failure and market failure. For the poorest developing countries without a well-functioning market, their economic development requires a strong boost to help escape the low-income trap. Based on a study on the relationship between government intervention and per capita GDP growth in 81 developing countries from 1980 to 1990, Bjorvatn and Coniglio (2012) find that developing countries with less industrial policy may not grow faster. Their theoretical model demonstrates the necessity of ambitious pro-investment policies to stimulate industrialization; such policies may prove to be more successful in the least developed countries (LDCs).

As the saying goes, "*give a man a fish and he will eat for a day. Teach a man how to fish and you feed him for a lifetime*." Investments in primary healthcare, roads, power plants, ports and other public goods and services are vital to the economic takeoff of developing countries. However, many developing countries lack the capital and funds for economic takeoff. Unlike traditional international direct investment, the BRI aims to assist developing countries in improving infrastructure, developing industries, and enhancing indigenous capabilities for economic development through international cooperation. The *Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road* calls for "infrastructure connectivity," which encompasses the development of trunk line communication networks including transportation, energy and cross-border optical fiber infrastructure connectivity. "Trade facilitation" contains such elements of bilateral and multilateral cooperation as customs clearance, inspection and quarantine, certification and authentication, standardization and metrology, as well as statistical data. Trade facilitation aims to broaden trade areas, eliminate barriers to investment, explore mutual investment areas, promote cooperation in emerging industries, and optimize the layout of the industrial division of labor.

Since its announcement, the BRI has come a long way and contributed to indigenous capacity in relevant countries. According to the *Building the Belt and Road: Concept, Practice and China's Contribution* released by the Steering Office for BRI Implementation, many crude oil, natural gas pipeline, energy, electric power and communication projects have started construction. By the end of 2016, China had created seven key development and opening-up experiment zones, 17 border economic cooperation zones and two bilateral border economic cooperation zones in its border provinces and autonomous regions. The 56 economic and trade cooperation zones under construction by Chinese companies in the 20 BRI countries have received a cumulative amount of investment exceeding 18.5 billion US dollars. Remarkable achievements have been made in the development of the China-Belarus Industrial Park, the Thai-Chinese Rayong Industrial Zone, and the China-Egypt Suez Economic and Trade Cooperation Zone.

1.2 Inclusiveness

The full concept of "inclusive growth" was articulated by the Asian Development Bank (ADB) for the first time in 2007. Inclusive growth aims to create equal opportunities for everyone (Ali and Zhuang, 2007). Later, more and more developing countries have embraced inclusive growth as their development policy. Partners of developing countries, including bilateral and multilateral aid agencies, international organizations, non-governmental organizations (NGOs) and civil society, have also accepted the concept of inclusive growth (Zhuang, 2008). Inclusiveness has become a principle that China pursues in its economic development.

At the APEC meeting in 2009, then Chinese President Hu Jintao highlighted the importance to "follow a holistic approach and advocate inclusive growth" in his keynote speech. At a meeting of the Political Bureau of the CPC Central Committee on July 29, 2014, General Secretary Xi Jinping stressed

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that China's development "must be inclusive development that follows the laws of social development," and put forward the goal to create a community of shared interests, destinies and responsibilities for the human society. On January 18, 2017, Xi Jinping delivered a keynote speech titled "Work Together to Build a Community of Shared Future for Mankind" at a high-level meeting at the Palace of Nations in Geneva. In his speech, he called for building an open and inclusive world of lasting peace, common security, common prosperity, and making the world clean and beautiful by pursuing green and low-carbon development.

In this paper, we define "inclusiveness" as equal access for countries to growth opportunities in international economic relations to achieve sustainable development and share in the benefits of economic development. An important goal of inclusive international industrial capacity cooperation is to ensure that economic growth benefits more countries and people. Economic development and people's rising incomes will, in turn, contribute to world economic growth and create a positive feedback loop. BRI cooperation will benefit all countries involved, including China, as well as the rest of the world.

Unlike international direct investments dominated by developed countries, China calls for inclusive international industrial capacity cooperation under the BRI. At the BRI International Cooperation Summit Forum hosted by the Chinese government in May 2017, heads of state and government from 30 countries and representatives from the United Nations, the World Bank and the International Monetary Fund (IMF) endorsed the *Joint Communique of the BRI International Cooperation Summit Forum Roundtable Summit*. The *Joint Communique* states that "countries, particularly developing countries, still face common challenges in eradicating poverty, promoting inclusive and sustained economic growth, and achieving sustainable development." Under the BRI and other cooperation frameworks, countries should commit themselves to developing the open economy, safeguarding free and inclusive trade, and opposing protectionism of all forms under the principle of "harmony and inclusiveness."

Countries should "respect natural and cultural diversity, and believe that all cultures and civilizations may contribute to sustainable development." Countries should strive to achieve the vision of "open and inclusive globalization," as well as "inclusive and sustainable growth and people's improving living standards." The BRI is a manifestation of inclusive globalization - a vision for all BRI countries in their industrial capacity cooperation (Liu, 2015). Under inclusive globalization, countries act as "modulators," address the problem of capital market "maturity mismatch," pursue development paths in light of their national conditions, create a level playing field for the participation of all stakeholders in globalization, and protect cultural diversity in economic globalization (Liu, *et al*., 2017).

Inclusiveness also concerns the balance between short-term and long-term development and economic sustainability. China has experienced setbacks in pursuing sustainable development. Relentless manufacturing expansion with a low level of technology exceeded environmental capacity and wrought damages to the environment. Since the dawn of the new century, the Chinese government has attached great importance to sustainable development. The "new-type industrialization" in the Report to the 16th CPC National Congress is characterized by "low resource consumption and less environmental pollution." The concept that "lucid waters and lush mountains are invaluable assets" put forward by General Secretary Xi Jinping has elevated the theory of sustainable development to a new level.

The Chinese government has enacted a host of policies to propel the green transformation, develop the circular economy, foster low-carbon green industries, and enhance pollution treatment. With these efforts and huge corporate investments, China has approached internationally advanced levels of technology and pollution abatement in petrochemical, chemical engineering, steel, nonferrous metals and building material sectors. By relocating upgraded world-class technologies to BRI countries, Chinese companies will help developing countries to achieve economic sustainability.

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2. New Characteristics of Inclusive Industrial Capacity Cooperation with a Capacity-Building Orientation

Under the BRI, inclusive industrial capacity cooperation with a capacity-building orientation led by China demonstrates distinctive new characteristics in terms of the participants, investment areas and results.

2.1 Participants of the BRI

Conventional international industrial capacity cooperation occurred primarily between developed and developing countries. As far as developed countries are concerned, their industrial cooperation with developing countries mainly occurred through multinational companies rather than governments themselves. After the World War II, the United States implemented the "Marshall Plan" to offer economic aid and assist reconstruction in the war-ravaged Western Europe. As a typical model of government-led international industrial cooperation, the Marshall Plan was introduced in 1947 and ended in 1961. Subsequent government aid programs implemented by developed countries in developing countries were limited in size and scope, and even had strings attached. In most cases, industrial relocation was spearheaded by multinational companies from developed countries.

China has called for integrating the BRI with the national strategies, visions and master plans of BRI countries as an entry point for BRI cooperation. By the end of 2016, over 100 countries have expressed their support and intent to participate in the BRI. China has entered into 46 cooperation agreements for BRI development with 39 countries and international organizations for a broad range of cooperation areas, such as interconnectivity, industrial capacity, investment, economic and trade ties, finance, technology, social and cultural programs, people's welfare, and maritime cooperation. China has also created bilateral and multilateral cooperation mechanisms with BRI countries and "double track" dialogue, exchanges and cooperation (Steering Office for BRI Implementation, 2017). While the government creates platforms and frameworks, companies are responsible for the implementation of industrial capacity cooperation.

2.2 Different Priorities of Investment

Previous international direct investments and industrial cooperation were primarily driven by profit-centered multinational companies with little involvement of government agencies and international organizations. Multinational companies from developed countries invested in profitable projects and industries in developing countries, focusing on the following three areas: (1) direct investment in the mining sector to access natural resources from developing countries; (2) investment in industrial sectors or value chain links in which developing countries boast a comparative advantage; (3) investment in product (such as food, beverage and building materials) and service sectors that need to be manufactured and provided locally in developing countries.

Unlike conventional international direct investment in profitable industries, China's BRI covers a broad range of economic and cultural cooperation. (1) Aside from pragmatic cooperation in key areas of interconnectivity, industrial capacity cooperation, trade and investment, the BRI also puts a great premium on all kinds of cultural communication and exchanges between BRI countries for common economic and cultural prosperity and development. (2) Aside from profitable industrial sectors like raw materials, equipment manufacturing, light industry, clean energy, environmental protection and high-tech sectors, the BRI also encompasses economic and trade zones that cannot directly create profits or require a long investment cycle but can boost the manufacturing capacity of host countries. For instance, Chinese enterprises have invested in 56 economic and trade cooperation zones in 20 BRI countries with a cumulative investment exceeding 18.5 billion US dollars. Typical examples include the China-Belarus Industrial Park, the Thai-Chinese Rayong Industrial Zone, and the China-Egypt TEDA Suez Economic

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& Trade Cooperation Zone. (3) The BRI also aims to promote infrastructure construction and interconnectivity, including railways, highways, ports, electric power and IT. Most infrastructure projects are capital-intensive with a long payback period. In the least developed countries, it takes time to build a whole network of infrastructure and bring its significant positive externalities into full play. Therefore, infrastructure investment hardly pays off in the short run in such countries. China's investment in the numerous low-return sectors with a long payback period, including infrastructure construction, is of great significance to the capacity building and economic takeoff of developing countries.

2.3 Different Results of International Industrial Relocation

Different participants, investment areas and industrial cooperation goals have led to different results of economic development in developing countries as recipients of international direct investment. Under the conventional model, multinational companies from developed countries dominate leading industries in developing countries. Profit-driven multinational companies also tend to curb economic growth in developing countries to maintain the latter's status as exporters of raw materials, processing and assembly locations of cheap industrial goods, and markets for finished products.

Developing countries are at the low-end of the global division of labor that offers paper-thin profitability, while most profits are garnered by multinational companies. As a result, developing countries lack capital accumulation for an industrial upgrade, and are unable to foster capital, knowledge and technology-based capabilities. Their inextricable dependence on natural resources, cheap labor and a crude development pattern have led to the "middle-income trap" or even the "low-income trap." As can be seen from Table 1, the per capita GDP difference between high-income countries and the least developed countries stood at 9,053.9 US dollars in 1980, and widened to 40,151.1 US dollars in 2017. Even by the 2010 constant price, this gap has expanded from 22,184.1 US dollars in 1980 to 40,620.8 US dollars.

In comparison, international capacity cooperation under the BRI is driven by the government and participated by enterprises covering a broad range of cooperation areas and goals. In making overseas direct investments, China and Chinese enterprises focus more on long-term interests and are committed to assisting developing countries in their capacity building to enable them to share in the dividends of world economic development.

Table 1: Comparison of Per Capita GDP in High-Income Countries and the Least Developed Countries (in USD)

Year	High-income countries		Least developed countries (UN classification)		Difference	
	Current price	2010 constant price	Current price	2010 constant price	Current price	2010 constant rice
1980	9,347.2	22,695.1	293.2	511.1	9,053.9	22,184.1
1990	18,368.8	28,540.8	307.1	493.7	18,061.7	28,047.1
2000	25,021.3	34,786.1	306.8	517.5	24,714.5	34,268.5
2010	38,137.9	38,137.9	779.4	779.4	37,358.6	37,358.6
2017	41,211.1	41,538.7	1,060	917.9	40,151.1	40,620.8

Source: The World Bank database.

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3. Inclusive Capacity Cooperation Mechanism with a Capacity-Building Orientation

Inclusive capacity cooperation with a capacity-building orientation under the BRI encompasses mechanisms for enhancing indigenous capacity, promoting economic development, developing industrial ecosystems and expanding exports. This process will bring about multi-win results for China and BRI countries.

3.1 Enhancing Indigenous Capacity in Developing Countries through Infrastructure Construction

Infrastructure construction is capital-intensive with a long payback period. Less developed countries usually lack the funds for infrastructure investment. The extent to which infrastructure investment drives economic growth is subject to not only the nature of infrastructure itself but also many other factors such as institutional systems and policies. The high uncertainties and risks of infrastructure investment have deterred commercial capital and locked some developing countries into a "low-level trap."

Infrastructure construction in developing countries requires "patient capital" or "long-term visionary capital" (Lin and Wang, 2017). State guarantee will encourage commercial capital to invest in long-term projects that require more patience. Infrastructure interconnectivity is a priority of BRI development, which must be supported by financial intermediation. Since the BRI's announcement, China has put forward a cooperation framework of "six corridors, six routes and multiple ports in various countries." "Six routes" refer to railway, highway, shipping, aviation, pipeline and an integrated spatial information network. "Multiple ports" refer to a few safe and reliable ports for maritime transportation.

With a poor level of infrastructure, rapidly growing low-cost countries have a tremendous demand for basic raw materials such as steel, building materials and nonferrous metals, as well as railways, power plants and manufacturing equipment. China boasts the world's largest infrastructure-related manufacturing capacity for steel, nonferrous metals, cement and glass, and international competitiveness for construction machinery, engineering machinery and transportation equipment. Massive domestic infrastructure construction has fostered strong surveying, design and construction capabilities. With the participation of the Chinese government and enterprises, developing countries will enhance their indigenous development capabilities by improving domestic infrastructure and connectivity. China's participation in the infrastructure construction of BRI countries will also drive its export of building materials, engineering machinery, transportation equipment, and construction services.

3.2 Indigenous Capacity Drives Economic Growth in Developing Countries

Infrastructures such as highways, railways and ports are the prerequisites for developing countries to connect with the rest of the world. Only by constructing modern infrastructures will developing countries turn their comparative advantages into real international competitiveness and engage in trade based on their respective comparative advantages. Such infrastructures will, for instance, facilitate the transportation of primary mineral resources from producing areas to ports and railways for export, and allow developing countries to foster less capital-intensive textiles industry based on their comparative advantage of cheap labor. Economic growth arising from infrastructure improvement will generate fiscal revenues that support further infrastructure construction, creating a benign cycle (Lin and Wang, 2017).

Currently, some BRI developing countries have already seen their economic growth pick up speed. As Table 2 shows, among countries with populations above 5 million and GDP above 10 billion US dollars, Ethiopia, Ghana, Kenya, Cote d'Ivoire, Nepal, Turkey, Bangladesh, Tanzania and Romania exceeded China's GDP growth rates in 2017. Countries like Laos, Cambodia, Vietnam, Senegal, Burkina Faso, the Philippines, India, Turkmenistan, Myanmar, Malaysia, Pakistan, Mali, Uzbekistan and Indonesia recorded GDP growth rates above 5%, which are close to China's. Most of these countries are BRI countries. The BRI is an open and inclusive platform for all interested countries. Except for more

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developed Turkey, Turkmenistan and Malaysia, other high-growth countries generally have a per capita GDP around 1,000 to 2,000 US dollars, ranking among low-income countries.

For China, the economic takeoff and growth of BRI countries will boost investment, industrial upgrade, consumption and demand for investment goods and industrial components. Consumption upgrade will create demand for consumer goods such as televisions, air conditioners, washing machines, computers, mobile phones, motorcycles and automobiles. The development of labor-intensive industries will drive demand for manufacturing equipment, instruments and meters, electronic

Table 2: High-Growth Countries

	GDP growth rate (%)							Total population (Million)	GDP (100 million USD)	Per capita GDP (USD)
	2011	2012	2013	2014	2015	2016	2017			
Ethiopia	11.2	8.6	10.6	10.3	10.4	7.6	10.2	10,496	806	768
Ghana	14.0	9.3	7.3	4.0	3.8	3.7	8.5	2,883	473	1,641
Guinea	5.6	5.9	3.9	3.7	3.8	10.5	8.2	1,272	105	825
Cote D'Ivoire	-4.4	10.7	8.9	8.8	8.8	8.3	7.8	2,429	404	1,662
Nepal	3.4	4.8	4.1	6.0	3.3	0.4	7.5	2,930	245	835
Turkey	11.1	4.8	8.5	5.2	6.1	3.2	7.4	8,075	8,511	10,541
Bangladesh	6.5	6.5	6.0	6.1	6.6	7.1	7.3	16,467	2,497	1,517
Tanzania	7.9	5.1	7.3	7.0	7.0	7.0	7.1	5,731	521	936
Romania	2.0	1.2	3.5	3.1	4.0	4.8	6.9	1,959	2,118	10,814
China	9.5	7.9	7.8	7.3	6.9	6.7	6.9	138,640	122,377	8,827
Laos	8.0	8.0	8.0	7.6	7.3	7.0	6.9	686	169	2,457
Cambodia	7.1	7.3	7.4	7.1	7.0	7.0	6.8	1,601	222	1,384
Vietnam	6.2	5.2	5.4	6.0	6.7	6.2	6.8	9,554	2,239	2,343
Senegal	1.8	4.4	3.5	4.1	6.5	6.7	6.8	1,585	164	1,033
Burkina Faso	6.6	6.5	5.8	4.3	3.9	5.9	6.7	1,919	129	671
The Philippines	3.7	6.7	7.1	6.1	6.1	6.9	6.7	10,492	3,136	2,989
India	6.6	5.5	6.4	7.4	8.2	7.1	6.6	133,918	25,975	1,940
Turkmenistan	14.7	11.1	10.2	10.3	6.5	6.2	6.5	576	424	7,356
Myanmar	5.6	7.3	8.4	8.0	7.0	5.9	6.4	5,337	693	1,299
Malaysia	5.3	5.5	4.7	6.0	5.0	4.2	5.9	3,162	3,145	9,945
Pakistan	2.7	3.5	4.4	4.7	4.7	5.5	5.7	19,702	3,050	1,548
Mali	3.2	-0.8	2.3	7.0	6.0	5.8	5.3	1,854	153	825
Uzbekistan	8.3	8.2	8.0	7.8	8.0	7.8	5.3	3,239	487	1,504
Indonesia	6.2	6.0	5.6	5.0	4.9	5.0	5.1	26,399	10,155	3,847

Note: Total population, GDP and per capita GDP are data of 2017 in current price USD.

Source: The World Bank database.

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components, raw materials and other inputs. These industrial sectors are those that have been relocated by developed countries and are yet to be fostered by low-cost developing countries. China's international competitiveness in these sectors offers opportunities to increase its exports of consumer and investment goods.

3.3 Promoting Export and Economic Development Based on Comparative Advantage

The interconnectivity of transportation helps developing countries foster indigenous capabilities and export resource products, including mineral and agricultural products. Meanwhile, a large amount of investment will flow into the labor-intensive industrial sectors in developing countries with a cheap labor advantage. Finished goods from labor-intensive sectors in developing countries will be exported to global markets. Under this model, BRI countries are expected to achieve full employment and rapid economic growth.

For China, expanding exports from BRI countries offers the following benefits: First, inexpensive and high-quality consumer goods and local products from various countries will offer a boon to Chinese consumers and cut their cost of living. Second, if Chinese enterprises manage to climb up the industrial value chain, their imports of low-cost raw materials and components from BRI countries will contribute to the cost competitiveness of Chinese products.

3.4 Infrastructure and Industrial Development Help Improve Industrial Ecosystem in Developing Countries

According to mainstream economics since Adam Smith, the division of labor is subject to market scope, and may also be interpreted as the extent to which industrial scale determines the level of specialization. By entering global markets based on their comparative advantages, BRI countries will expand their labor-intensive industries, which in turn will boost upstream industries. For instance, the textiles industry corresponds to upstream fabrics, dyeing, textiles, plastic product and metal product industries. The expansion of upstream industries further enables capital-intensive industries such as steel and petrochemicals to develop economies of scale and profitability. In a word, infrastructure connectivity helps developing countries foster labor-intensive industries as the foundation for capital-intensive industries and the industrial ecosystem.

Factor cost such as labor cost is not the only determinant of a country's industrial competitiveness. The conversion of factor advantage into real international competitiveness is also subject to the quality of industrial ecosystem. If a country lacks access to upstream raw materials, it has to import such materials from abroad. Yet pricey raw materials imported from other countries will dent its factor cost advantage, and the long supply cycle will cause the supply chain to respond slowly to changes in the downstream market.

With rising labor and other factor costs, China's labor-intensive industries are losing their price advantage. Many BRI countries are less developed with much cheaper labor than China's. By moving labor-intensive industries to low-cost developing countries and prodding domestic firms to upgrade towards R&D, design, branding and premium goods, Chinese enterprises will be able to keep their price advantage in global markets and dominate the global value chain.

4. Recommendations on Inclusive Industrial Capacity Cooperation with a Capacity-Building Orientation

With the goal of inclusive development, BRI international industrial capacity cooperation is expected to achieve a win-win situation and sustainable development in BRI countries. Yet the risks also warrant close attention. Efforts must be made on the following fronts for the BRI's sound development.

First, adhering to the principles of mutual benefit and win-win results. BRI international industrial

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capacity cooperation helps developing countries enhance infrastructure construction and connect with global markets to bring about comparative advantages and foster indigenous growth capacity. Growth in developing countries also contributes to China's domestic economic upgrade. Instead of benefiting specific countries, BRI international capacity cooperation will lead to win-win results for all participating countries. This principle should be recognized and endorsed by all BRI countries.

Second, enterprises should lead BRI cooperation. As the *Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road* points out, the BRI aims to promote the flow of economic factors, resource allocation, market integration and broader and deeper regional cooperation at a higher level to build an open, inclusive and balanced structure for regional economic cooperation. While participating governments may create BRI cooperation frameworks, enterprises should decide the scale and speed of the construction of transportation infrastructure, industrial zones and projects based on their analysis of investment conditions in host countries and the investment value of projects.

Third, strengthening risk mitigation. Given the political instability, inadequate legal system and poor economic conditions in some BRI countries, industrial capacity cooperation should be carried out based on careful analysis of political, economic and social conditions in relevant countries and through careful planning. BRI cooperation should avoid misguided projects and vicious competition, effectively mitigate risks, and increase efficiency.

Fourth, further regulating the overseas investment behaviors of enterprises. In overseas investment activities, Chinese enterprises must strive to achieve multi-win results for themselves and host countries. Therefore, China should ensure that its companies comply with local laws and social and cultural traditions in their investment activities in host countries.

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