

**The role of China's Overseas Industrial Parks in  
Promoting Chinese Enterprises Overseas Investments:  
Case Studies in Southeast Asia**

**Dissertation**

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## Abbreviations

AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
CNNIC	China Internet Network Information Center
CPI	Global Corruption Perception Index
EEC	Thailand's Eastern Economic Corridor
GIIC	Greenland International Industrial Center at Kota Deltamas
GVC	Global Value Chain
KITIC	China-Indonesia Economic and Trade Cooperation Zone (Kawasan Industri Terpadu Indonesia China)
HTTZ	Hangzhou High-Tech Zone
IDS	Institute of Development Studies
LJIP	Longjiang Industrial Park
OETCZ	Overseas Economic and Trade Cooperation Zone
OEM	Original Equipment Manufacturer
ODM	Own-Design Manufacturer
OBM	Own-Brand Manufacturer
RCEP	Regional Comprehensive Economic Partnership
SIP	Suzhou Industrial Park
SMEs	small and medium-sized enterprises
SRI	Silk Road Initiative
TCR	Thai-Chinese Rayong Industrial Zone
UNIDO	United Nations Industrial Development Organization
VCEP	Vietnam-China (Haiphong-Shenzhen) Economic and Trade Cooperation Zone

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# Chapter 1 Introduction

## 1.1 China's Overseas Industrial Parks

### 1.1.1 Overview

2005 was a pivotal year for China's overseas industrial parks. Before 2005, the construction of China's overseas industrial parks was mainly based on the self-exploration of enterprises. After 2005, the Chinese government began to proactively issue policies for overseas industrial parks to support the development of industrial parks. There are three important time points of development: (1) At the end of 2005, the Ministry of Commerce announced the overseas industrial park policy, which marked the official participation of the government in the construction of overseas industrial parks. (2) In 2008, the State Council announced its support for overseas industrial parks policies, marking that overseas industrial parks have become a national strategy. (3) In 2013, the Belt and Road Initiative (BRI) was proposed to accelerate the policy implementation and construction of overseas industries.

Ernst & Young Global Limited China published a report in July 2020, *How can overseas industrial parks open a new chapter of BRI?*.<sup>1</sup> This report gives a comprehensive description of China's overseas industrial parks: "Overseas industrial park is a type of industrial cluster for foreign direct investment. At present, there is no universal definition of such parks. It usually refers to various types of parks invested by Chinese enterprises in host countries. ... Overseas industrial parks could help the stationed enterprises obtain more favorable preferential policies and a better business environment, including comprehensive supporting facilities such as land, capital, technology and talent, to reduce overall barriers of enterprises' 'going abroad'. Overseas industrial parks are important platforms for China to further promote the BRI and international economic and trade cooperation, to enhance deeper economic integration with BRI countries and achieve win-win results."

Some scholars and research institutions also try to classify overseas industrial parks according to their own standards, which are generally divided into six types: (1) agricultural industrial parks, mainly for the production of agriculture, forestry, animal husbandry, fishery, etc.; (2) light industrial parks, mainly refers to the production of textiles, food, household appliances and other products; (3) heavy industrial parks, mainly refers to the processing of petroleum, electronic, chemical and

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<sup>1</sup> Loletta Chow, "How can overseas industrial parks open a new chapter of the Belt and Road?" *Ernst & Young Global Limited China*, 2020.07.09

other products, especially the energy resources; (4) logistics parks which mainly focuses on logistics trade, and transports commodities to other countries for trade cooperation through logistics; (5) high-tech parks, based on high-tech, produces cutting-edge high-tech products; (6) comprehensive industrial parks, covering two or more types of parks above, are generally parks integrating multi-functional industries<sup>2</sup>.

### **1.1.2 China's Overseas Industrial Parks Policies**

The Chinese government began to issue policies for overseas industrial parks after 2005. Three major policies for Overseas Economic and Trade Cooperation Zone (OETCZ) can be regarded as milestones: (1) In 2005, the Ministry of Commerce issued *Chinese Government's Supporting Policies and Measures for OETCZ*, which marked the official launch of the overseas industrial park policy. (2) In 2006, the Ministry of Commerce issued *Basic Requirements and Application Procedures for OETCZ*, which marked the official start of the application and assessment procedures; (3) In 2008, the State Council issued *Opinions on Agreeing to Promote the Construction of OETCZ*, indicating that this policy has been elevated to a national policy. This means that multiple national ministries work together to promote and implement the overseas industrial park policy, instead of the Ministry of Commerce alone being responsible for it.

China's policy support for the overseas industrial park is a series of policies formulated around OETCZ. These policies aim to achieve two effects. (1) Guiding effect. The Ministry of Commerce of China hopes to use OETCZ as a model industrial park, so as to provide a more specific and vivid reference standard for other overseas industrial parks' planning and operation, instead of giving a very detailed definition and description of overseas industrial parks. (2) Provide a focus point of policy support. Overseas industrial parks can be certified as OETCZ only after they pass the government's assessment. In this way, the number of supporting objects will be greatly reduced. The government can formulate more comprehensive and specific policies around these objects, including support in finance, taxation, export audit, insurance, etc.

The BRI attaches great importance to OETCZ. Promoting OETCZ is mentioned in the three most important official documents of the BRI: (1) In 2015, the Chinese government released the first comprehensive official document on the BRI, called *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. It mentioned that support should be given to various industrial parks such as OETCZ and cross-border economic cooperation zones, thereby

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<sup>2</sup> Li Humei, Wu Mingquan, Niu Zheng and Li Qi, "Information dataset of China's overseas industrial parks from 1992 to 2018", *China Scientific Data*, 2019, No.4, P68-78; Yan Bing, Jia Huihui, "Promote the high-quality development of overseas economic and trade cooperation zones", *Chinese Social Sciences Today*, 2020.05.08

promoting the development of Chinese industrial clusters overseas. (2) The *First Belt and Road Forum for International Cooperation* was held in 2017. During the meeting, the Chinese government released the official document *Building the Belt and Road: Concept, Practice and China's Contribution*<sup>3</sup>. It also mentioned OETCZ: "To the end of 2016, Chinese enterprises have invested more than 18.5 billion US dollars in 56 OETCZs which are located in 20 BRI countries. The OETCZ has become an important carrier for deepening investment cooperation...China is actively exploring the construction of the OETCZ, in order to build a modern international trade platform with agglomeration effect for Eurasia and neighboring countries". (3) The *Second Belt and Road Forum for International Cooperation* was held in 2019. During the meeting, the Chinese government published the official document for the further planning, called *BRI: Progress, Contributions and Prospects*<sup>4</sup>. The document also mentioned OETCZ: "These industrial parks promote the economic development of local countries and create new tax sources and jobs for BRI countries. ... China hopes to deepen mutual benefits in the economic and trade cooperation with BRI countries, expand the scale of bilateral and multilateral investment and trade, ... promote industrial cooperation through OETCZ".

### **1.1.3 Role of Overseas Industrial Parks in Chinese Enterprise's Overseas Investment**

Overseas industrial parks are highly expected to promote Chinese enterprise's overseas investment by reducing investment costs and risks. In this way, enterprises can spend more resources on establishing regional value chains abroad. The more numerous and significant these regional value chains become, the more possible to promote Chinese enterprises in upgrading within the global value chain.

A realistic situation is that inexperienced Chinese enterprises have faced challenges of high costs and high risks in the process of overseas investment. This is primarily caused by three factors. First, the purposes of many Chinese enterprises' overseas investment are to reduce production costs, but most of them lack of overseas investment experience. Second, some companies mentioned they couldn't get enough money from Chinese domestic financial institutions for overseas investments due to imperfection of China's financial system for overseas investment. Third, the unfavorable business environment overseas, where are mainly in developing countries in Southeast Asia and Africa. To be specific: (1) The lack of infrastructure in these countries has become an important restriction on China's overseas investment, including the basic infrastructure

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<sup>3</sup> Office of the Leading Group for the Belt and Road Initiative, *Building the Belt and Road: Concept, Practice and China's Contribution*, 2017.05.10

<sup>4</sup> Office of the Leading Group for the Belt and Road Initiative, *The Belt and Road Initiative: Progress, Contributions and Prospects*, 2019.04.22

such as electricity, water supply, roads, and communications.<sup>5</sup> (2) The low degree of industrialization in these countries has resulted in the imperfection of production factor markets, such as the labor market<sup>6</sup>. (3) Other constraints. Some investment objects countries are ranked relatively high in the Global Corruption Perception Index (CPI), such as Cambodia, Vietnam, Thailand, Indonesia and others<sup>7</sup>, leading to the low administrative efficiency of the local government and the increase of extra costs for enterprises.<sup>8</sup> Some investment objects countries are unstable with frequently replaced regimes, which leads to the cancellation or suspension of China's investment. For example, the newly established government in Sri Lanka has suspension of China's investment in port projects.<sup>9</sup>

China's overseas industrial parks make it possible to solve the above problems, because they can provide a better investment environment overseas.<sup>10</sup> With the infrastructure and services provided by overseas industrial parks, Chinese overseas investment can lower the requirements for the strength of Chinese companies and the local business and industrial conditions. This provides a new idea for China's overseas investment, that is, first invest in overseas industrial parks to improve the local investment environment, and then attract enterprises to enter the industrial parks. This can promote China's overseas investment more proactive, rather than waiting for Chinese companies to become leading companies or the investment object countries to provide a good enough investment environment.

The significance of the overseas industrial park is to divide China's overseas investment into two stages. The first stage is investment in overseas industrial parks, and the second stage is for enterprises to select suitable overseas industrial parks with less investment costs and risks. It can bring the following benefits. (1) It enable enterprises to have a clearer choice of investment object. Many Chinese enterprises decide on suitable investment objects after comparing different cities overseas. But this kind of comparative analysis is difficult to make because there are so many

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<sup>5</sup> Zou Haofei, Duan Jingxin, "Overseas cooperation zones convey new ideas of Chinese investment", *China Investment*, 2015, P33-37; Zou Haofei, Du Zhenli, Duan Jingxin, "Research on the Development of Overseas Economic and Trade Cooperation Zones under the 'One Belt, One Road' Strategy", *Journal of International Economic Cooperation*, 2016, No.10, P41-45

<sup>6</sup> Zhou Mi, "Overseas Economic and Trade Cooperation Zone: An Important Platform for the Sustainable Development of Chinese Enterprises", *International Project Contracting & Labor Service*, 2017, No.10, P26-30

<sup>7</sup> Guo Baihong, "Research on China's Overseas Economic and Trade Cooperation Zones' Risk Prevention of under BRI Strategic Framework", *Modern Management Science*, 2018, No.8, P55-57

<sup>8</sup> Bo Wenguang, Chen Lulin and Hu Yi, "Research on the Sustainable Development of China's Overseas Economic and Trade Cooperation Zones under the Belt and Road Initiative", *Journal of Chang'an University*, 2018, Vol.20, No.4, P64-74

<sup>9</sup> Jia Lingjun, Sa Qjurong, "An Analysis of the Development Status of China's Overseas Economic and Trade Cooperation Zones", *Practice in Foreign Economic Relations and Trade*, 2015, No.8, P25-28

<sup>10</sup> Zhang Guangrong, "An Analysis of the Development Policy of China's Overseas Economic and Trade Cooperation Zones", *Journal of International Economic Cooperation*, 2013, No.2, P40-42

factors to consider when comparing cities. To contrast, the comparative analysis among overseas industrial parks will be easier and more specific for overseas production. This helps enterprises narrow down the scope and clarify the main point when they make the decision, so that they can find the most suitable overseas industrial park for them. (2) It could expand the benefits of overseas investment. In addition to the return on investment in overseas factories, the investors of overseas industrial parks can also benefit from this and expand their business overseas. To be precise, this is a win-win situation. The investors of overseas industries park get profits by providing the industrial infrastructure and services to enterprises; and the enterprises can reduce the cost and risk of overseas investment by entering the industrial park.

## **1.2 Research Design**

### **1.2.1 Define Main Research Question**

Theoretically, the infrastructure and services provided by overseas industrial parks can facilitate Chinese enterprise's overseas investment. And industrial park investors can also generate returns through these provisions. It should be win-win. But it is still unknown whether this is feasible in practice. Hence, this becomes the research focus of this study.

OETCZ policy demonstrates the significant importance of overseas industrial parks to the government. Notably, this policy was created in response to two practical needs. First, the rapid development of overseas industrial parks has brought a series of problems, such as overheated investments without careful thought and planning. Second, inexperienced Chinese investors in overseas industrial parks are unable to develop and implement sound long-term planning on their own, or address the complex challenges during the investments. Based on these realities, the aim of this Policy is to prevent unreasonable overheated investments and provides a visible reference standard for inexperienced investors of overseas industrial parks, especially in position selection, plans formation, and operational capacity strengthening. This is also beneficial for the government, as it allows them to focus on supporting high-quality overseas industrial parks that meet the standards, thus promoting their better and faster development.

In Chinese government's vision, the core mission of China's overseas industrial parks is to reduce investment costs and risks for Chinese enterprises abroad, ultimately helping them to concentrate more resources on establishing overseas regional value chains. To achieve this goal, it is crucial to determine whether this objective is both meaningful and practically feasible. Therefore, the main question of this study is: Can China's overseas industrial parks effectively facilitate Chinese enterprise's overseas investment?

## 1.2.2 Research Subjects and Questions

### **Part A: Research Subjects**

This study focuses on four representative China's overseas industrial parks in Southeast Asia: Thai-Chinese Rayong Industrial Zone (TCR), China-Indonesia Economic and Trade Cooperation Zone (Kawasan Industri Terpadu Indonesia China, KITIC), Longjiang Industrial Park (LJIP) and Vietnam-China Economic and Trade Cooperation Zone (VCEP).

This selection is out of two main reasons. First, these four parks were the earliest industrial parks which passed the assessments of Chinese Ministry of Commerce and Ministry of Finance, end with earning certification as "Overseas Economic and Trade Cooperation Zone". And these four parks have been in development for relatively long periods with so many cases and experience, making them suitable subjects for observation.

Second, these four parks are located in Southeast Asia, a region where Chinese enterprises are most eager to establish overseas supply chains, because ASEAN's importance to China is expected to grow significantly<sup>11</sup>: (1) There is a strong demand for cooperation between China and ASEAN, for promising mutual benefits. For China, Southeast Asia is one of the most ideal regions for overseas investment and industrial transfer, considering factors like geographical advantage and resource endowment. For Southeast Asian countries, investment from China can significantly drive their industrialization and modernization. (2) Cooperation between China and ASEAN is expected to become closer and more important. This is especially evident from initiatives like the 21st-Century Maritime Silk Road (which refers to the 'R' of BRI) proposed by President Xi Jinping during his visit to ASEAN in 2013, and the Regional Comprehensive Economic Partnership (RCEP) that came into effect on January 1, 2022. Against this backdrop of strengthened economic cooperation between both sides, ASEAN has become one of the preferred regions for China's overseas industrial parks investors and Chinese enterprises. China's overseas industrial parks are regarded sometimes as a new way to deepen bilateral economic and trade cooperation between China and ASEAN.

### **Part B: Research sub-questions**

This study attempts to conduct research from three perspectives, forming three sub-questions corresponding to Chapters from 5 to 7.

Sub-question one focuses on Chinese investors of overseas industrial parks. As mentioned earlier,

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<sup>11</sup> Jia Lingjun, Zhu Lin, "A New Way of China-ASEAN Economic and Trade Cooperation: Overseas Economic and Trade Cooperation Zone", *Co-operative Economy & Science*, 2015, No.13, P109-111

theoretically, Chinese enterprises can reduce their overseas investment costs and risks through the infrastructure and services provided by overseas industrial parks. To achieve this goal, it is crucial to ensure that investors are sufficiently motivated to invest in these parks. With literature review and preliminary observations, the author found that many overseas industrial parks have adopted a "Park-in-Park" investment model, which has contributed to relatively smooth development. Based on this, this study takes the "Park-in-Park" investment model as the starting point and defines **Sub-question One**: Does the "Park-in-Park" model contribute to the success of overseas industrial parks' investments? And the Hypothesis: The "Park-in-Park" model indeed significantly enhances the feasibility and success of overseas industrial parks' investments.

Sub-question two focuses on Chinese enterprises within the four studied industrial parks. The author wants to figure out why these enterprises ultimately choose this industrial park, instead of choosing the overseas industrial parks built by Singaporean or Japanese investors, which have a longer development and more operational experience. In initial contact with these enterprises, the author discovered the selection was mainly because of their belief that these parks could (now or in the future) meet their fundamental overseas investment needs. Based on this, **Sub-question Two** was defined as: Is the matching between the functions of overseas industrial parks and the overseas investment needs of enterprises the main criteria for choosing overseas industrial parks? And Hypothesis: The main reason lies in that their perceived (or expected) functions of overseas industrial parks satisfy their fundamental need to invest overseas.

Sub-question three focuses on sustainable profitability of overseas industrial parks. This study attempts to use the comparison between domestic and overseas industrial parks in terms of sustainable profitability as the starting point, as many Chinese overseas industries have referred to the experience of domestic industrial parks from the beginning of construction and operation. The research selects two case studies from China to better understand the sustainable profitability of domestic industrial parks, Suzhou Industrial Park (SIP) and Hangzhou High-Tech Zone (HTTZ), which represent two different approaches to achieving sustainable profitability. Jointly investment and operation of Chinese and Singapore's investors contribute to the sustainable Profitability of SIP, while cutting-edge technology contributes to that of HTTZ. Based on this, the author defines **Sub-question Three**: Have China's overseas industrial parks found their own ways to achieve sustainable profitability? And Hypothesis: China's overseas industrial parks are quite clear about the ways to achieve sustainable profitability.

### 1.2.3 Research Significance

With literature review in Chapter 2, this study has found two major research directions on China's overseas industrial parks. Firstly, Chinese scholars such as Li Chunding<sup>12</sup>, Du Juan<sup>13</sup>, Qi Xin & Yang Chao<sup>14</sup>, conduct research on the functions. They emphasize that overseas industrial parks should play as a platform, which provides resources and place for the geographical clustering of Chinese enterprises abroad. This clustering ultimately enhances cooperation among Chinese enterprises, enabling them to share risks and benefits. The key to this platform is the ability to gather all local resources, including close connections with local governments, enterprises and overseas Chinese.

Secondly, more Chinese scholars focus on the various challenges these overseas industrial parks encountered. These challenges can be categorized into four main areas: (1) Challenges in planning and site selection. Encouraged by OETCZ policy and BRI, some inexperienced Chinese investors have invested overseas industrial parks without long-term planning. This has led to many problems. For example, two or three China's overseas industrial parks with similar functions and positioning emerged in the same region or in the two neighboring countries, leading to the excessive or vicious competition between each other. Scholars such as Zhang Mei & Dong Guangyao<sup>15</sup>, You Hongbing, Cheng Nan & Yang Lei<sup>16</sup>, Hu Jiangyun, Zhao Shubo & Wang Xiuzhe<sup>17</sup>, Zhu Nina & Fan Dan<sup>18</sup>, Zhang Yin<sup>19</sup>, have studied how to better plan and select locations for overseas industrial parks. (2) Financial challenges. Overseas industrial parks require large-scale capital investment, which poses a great challenge for both industrial park investors and domestic financial institutions in China. Scholars such as Jia Lingjun & Sa Qirong<sup>20</sup>, Wuzhati Yeerken, Zhang Wei & Liu Zhigao<sup>21</sup>, Zhou Mi<sup>22</sup>,

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<sup>12</sup> Li Chunding, "The construction of overseas economic and trade cooperation zones and the 'going out' of Chinese enterprises", *Foreign Investment in China*, 2008, No.8, P64-66

<sup>13</sup> Du Juan, "Research on the Development of Overseas Economic and Trade Cooperation Zones under BRI", *Accounting learning*, 2018, No.9

<sup>14</sup> Qi Xin, Yang Chao, "Discussion and Suggestions on Several Issues in the Construction of Overseas Economic and Trade Cooperation Zones", *Intertrade*, 2018, No.6, P30-33, 66

<sup>15</sup> Zhang Mei, Dong Guangyao, "The cooperation zone is an important connection point of the Belt and Road Initiative", *China Investment*, 2015, No.7, P38-39

<sup>16</sup> You Hongbing, Cheng Nan, Yang Lei, "Characteristics and Development Suggestions to Overseas Industrial Park Construction", *Journal of International Economic Cooperation*, 2017, No.2, P36-41

<sup>17</sup> Hu Jiangyun, Zhao Shubo, Wang Xiuzhe, "Research on Overseas Economic and Trade Cooperation Zones under the Concept of BRI", *Development Research*, 2017, No.1, P8-12

<sup>18</sup> Zhu Nina, Fan Dan, "Research on China's Overseas Economic and Trade Cooperation Zones", *Beifang Jingmao*, 2017, P11-17

<sup>19</sup> Zhang Yin, "Research on the Development Status of China's Overseas Economic and Trade Cooperation Zones", *China Journal of Commerce*, 2018, No.22, P66-67

<sup>20</sup> Jia Lingjun, Sa Qirong, "An Analysis of the Development Status of China's Overseas Economic and Trade Cooperation Zones", *Practice in Foreign Economic Relations and Trade*, 2015, No.8, P25-28

<sup>21</sup> Wuzhati Yeerken, Zhang Wei, Liu Zhigao, "Research on the construction mode of overseas parks along the Belt and Road", *Bulletin of Chinese Academy of Sciences*, 2017, No.4, P355-362

<sup>22</sup> Zhou Mi, "Overseas Economic and Trade Cooperation Zone: An Important Platform for the Sustainable Development of Chinese Enterprises", *International Project Contracting & Labor Service*, 2017, No.10, P26-30

have researched financial solutions to support overseas industrial park investment. (3) Lack of mature profit model. All overseas industrial parks in their early stages face the difficulty of identifying a suitable and sustainable profitability model. Scholars such as Zan Baosen<sup>23</sup>, Li Dan & Chen Yougeng<sup>24</sup>, Lu Hongyan<sup>25</sup>, Qiao Huijuan<sup>26</sup>, are attempting to summarize viable profit models for overseas industrial parks based on existing case studies. (4) The limited effect of industrial agglomeration. Overseas industrial parks are expected to enhance industrial clustering, which facilitates cooperation among Chinese enterprises. Scholars such as Hong Lianying & Zhang Yun<sup>27</sup>, Wang Jianhua<sup>28</sup>, Bo Wenguang, Chen Lulin, & Hu Yi<sup>29</sup>, focus on the reasons behind fragmented industrial structures in overseas industrial parks and propose solutions to improve clustering.

However, both research directions mentioned above have their limitations. (1) Functional researchers primarily consider overseas industrial park as a single actor in clustering Chinese enterprises and resources. But it lacks focus on the interactions between different participants within the overseas industrial park, such as the division of responsibilities between enterprises and park operators, or how to maintain efficient trust and interaction between these two roles. These divisions of responsibilities and interactions are critical prerequisites for the industrial park to function effectively as a platform. Otherwise, inefficient interactions may result in a situation that industrial park operators offer services and functions that enterprises do not actually need. (2) The progress in challenges research has been too slow.

The current research results are mainly about categorization and description of the challenges faced by overseas industrial parks. And some scholars begin to analyze the root causes of these challenges. But most of the solutions proposed in existing literature remain highly generalized and superficial, offering broad, macro-level suggestions rather than detailed and feasible solutions.

Based on this, this study attempts to take a more specific perspective to further clarify the practical role and challenges of China's overseas industrial parks, identify their potential future development

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<sup>23</sup> Zan Baosen, "Overseas Economic and Trade Cooperation Zones and 'going out' Strategy", *China Nonferrous Metals*, 2010, No.1, P137-142

<sup>24</sup> Li Dan, Chen Yougeng, "Foreign Aid and Construction of Overseas Economic and Trade Cooperation Zone", *China Opening Journal*, 2015, No.1, P51-53

<sup>25</sup> Lu Hongyan, "Experience and Enlightenment of the Development of China's Overseas Economic and Trade Cooperation Zones", *Foreign Economic Relations & Trade*, 2013, No.10, P7-10

<sup>26</sup> Qiao Huijuan, "Risk Prevention of Overseas Economic and Trade Cooperation Zones", *Commercial Times*, 2014, No.15, P19-21

<sup>27</sup> Hong Lianying, Zhang Yun, "The construction of overseas economic and trade cooperation zones and the 'going out' strategy of enterprises", *Guoji Jingmao Tansuo*, 2011, No.3, P48-54

<sup>28</sup> Wang Jianhua, "Strategic thinking on the construction of overseas industrial parks in the Belt and Road region", *Journal of Technical Economics & Management*, 2018, No.1, P122-127

<sup>29</sup> Bo Wenguang, Chen Lulin and Hu Yi, "Research on the Sustainable Development of China's Overseas Economic and Trade Cooperation Zones under the Belt and Road Initiative", *Journal of Chang'an University*, 2018, Vol.20, No.4, P64-74

direction, and find out effective solutions to existing challenges. Specifically, the research is structured around three sub-questions: (1) From the perspective of overseas industrial park investors in sub-question one, Chapter 5 explores whether the “Park-in-Park” model could be the mainstream investment model in future. (2) From the perspective of Chinese enterprises within the parks in sub-question two, Chapter 6 examines the alignment between functions of parks and the actual investment needs of Chinese enterprises. The key issue is not what services the industrial park can offer, but rather what Chinese enterprises truly need, especially those fundamental needs that are often ignored. (3) From the perspective of industrial park operators and sustainable profitability in sub-question three, Chapter 7 investigates have China’s overseas industrial parks found their own ways to achieve sustainable profitability.

This research is also highly relevant for policy improvement. Both China’s overseas industrial parks and related policies are still in the early exploratory stage. For example, the definition and functions of OETCZ remain relatively vague. For another example, there are no clear guidelines or standards to improve the investment success rate and sustainable profitability of these industrial parks. By conducting this study, practical recommendations and insights can be provided to guide policy improvements. For instance, the government could encourage public enterprises as overseas industrial parks investors, as the huge capital investment and long profitability cycle may be unsuitable for private investors.

### **1.3 Dissertation Structure**

The thesis is structured into eight chapters, providing a comprehensive analysis of the research questions and the subject of study.

Chapters 1 to 3 have fully introduced the research problem and China’s overseas industrial parks. To be specific, Chapter 1 presents an overview of these parks, defines the main research question and highlights the research significance. Chapter 2 systematically reviews the literature on China’s overseas industrial parks, their policies, and existing research to give readers a comprehensive understanding of the research topic. From the perspective of global value chain upgrading, Chapter 3 explains why both the Chinese government and enterprises place great importance on overseas industrial parks.

Chapter 4 focuses on methodology. The previous three chapters establish a theoretical consensus among scholars that China’s overseas industrial parks can reduce investment costs and risks for Chinese enterprises abroad, ultimately helping them to concentrate more resources on establishing overseas regional value chains. In this way, it can help China’s upgrading in global value

chain. Based on this, research in this field should focus on assessing the feasibility of the current investment model of overseas industrial parks (especially represented by OETCZ). To explore this, the study selects four China's overseas industrial parks in Southeast Asia, all of which have been designated as OETCZ.

Chapters 5 to 8 present the core research findings. Chapter 5 focused on the overseas industrial park investors in sub-question one, exploring whether the "Park-in-Park" model can improve investment success rates and investor confidence. Chapter 6 focused on Chinese enterprises within these parks in sub-question two, examining the alignment between the fundamental needs of Chinese enterprises investing in Southeast Asia and the functions of overseas industrial parks. Chapter 7 focused on sustainable profitability of overseas industrial parks in sub-question three, analyzing their current status of sustainable profitability and exploring potential pathways to achieving that. Chapter 8 summarizes the findings of the three research questions and presents the conclusions.

## Chapter 2 China's Overseas Industrial Parks Driven by Politics

### 2.1 Overview of China's Overseas Industrial Parks

#### 2.1.1 Definition

There are many China's overseas industrial parks. It is impossible to form a very unified, clear and specific definition, because there are huge differences in their functions, scale, location, investors and other factors. Therefore, scholars can only try to find the common characteristics of these parks from a broader perspective, and then try to define them later.

Ernst & Young Global Limited China published a report in July 2020, *How can overseas industrial parks open a new chapter of the BRI?*<sup>30</sup> This report gives a comprehensive description of China's overseas industrial parks: "Overseas industrial park is a type of industrial cluster for foreign direct investment. At present, there is no universal definition of such parks. It usually refers to various types of parks invested by Chinese enterprises in host countries. ... Overseas industrial parks could help the stationed enterprises obtain more favorable preferential policies and a better business environment, including comprehensive supporting facilities such as land, capital, technology and talent, to reduce overall barriers of enterprises' 'going abroad'. Overseas industrial parks are important platforms for China to further promote the BRI and international economic and trade cooperation, to enhance deeper economic integration with B&R countries and achieve win-win results."

In conclusion, China's overseas industrial parks have the following basic characteristics: (1) overseas industrial parks are built by Chinese enterprises or Sino-foreign joint ventures; (2) their main role is to promote Chinese enterprises' overseas investment; (3) in order to improve China's overseas investment environment, overseas industrial parks need to play the role of obtaining preferential policies, providing infrastructure and support services, etc.

#### 2.1.2 Statistics

Statistics on overseas industrial parks are very difficult to interpret the definitions and standards of overseas industrial parks are not unified. At present, it can be divided into official statistics and unofficial statistics. The characteristic of official statistics is that the number of parks is relatively small, but these parks have a fairly good scale and conform to the general characteristics of

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<sup>30</sup> Loletta Chow, "How can overseas industrial parks open a new chapter of the Belt and Road?" *Ernst & Young Global Limited China*, 2020.07.09

overseas parks. The characteristics of unofficial statistics are that the number is relatively large, but the scale of these industrial parks is very different, and some of them can only barely meet the basic characteristics.

The official statistics: According to its own definition and standards for overseas industrial parks, the Ministry of Commerce of China has counted 113 China's overseas industrial parks, half of which are located in BRI countries (56<sup>31</sup>). But there is still the possibility of small deviations among official statistics (in some official reports, the total number is 113, in some others is 118) due to differences in statistical standards of different government departments. According to official statistics, China's overseas industrial parks have achieved rapid growth after the BRI was proposed in 2013. 2013 to 2018 was a period of rapid growth for overseas industrial parks, and there has been no obvious increase in numbers since 2018. In other words, the Chinese government did not conduct detailed and comprehensive statistics on overseas industrial parks until 2013.

The unofficial statistics: The statistics are mainly conducted by scholars and research institutions. The number of overseas industrial parks is around 180-200. The reason for the huge deviations is mainly the differences in the data sources and statistical methods of different institutions. In addition, some overseas industrial parks are under construction or planned to be constructed, which also affects the statistical results. Although many deviations exist, it is confirmed that the statistical results are mostly in the range of 180-200. For example, in the statistics of Yan Bing and Jia Huihui, it was mentioned that in 2019, there were 201 overseas parks under construction or completed, of which 138 were located in BRI countries<sup>32</sup>.

### **2.1.3 Classification**

Li Zhipeng from the Ministry of Commerce mentioned the classification of overseas industrial parks, which is mainly divided into five types according to the functions of the parks<sup>33</sup>: The first type is the one focused on Processing and Manufacturing. Chinese companies invest and build factories within the overseas industrial parks, in order to avoid trade frictions and expand exports. The main industries of this type of industrial park mainly include home appliances, textiles, machinery, electronics, metallurgy, building materials and other industries. For example, Haier Group's electrical industrial zone in Pakistan.

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<sup>31</sup> Xinhua Silk Road, "Investment Guide for Key Overseas Economic and Trade Cooperation Zones in 2019", written by Gu Liwen, 2019.08.21, <https://www.imsilkroad.com/news/p/382012.html>. Last visit: 2025.01.01

<sup>32</sup> Yan Bing, Jia Huihui, "Promote the high-quality development of overseas economic and trade cooperation zones", *Chinese Social Sciences Today*, 2020.05.08

<sup>33</sup> Li Zhipeng, "Exploration on the development of overseas economic and trade cooperation zones", *International Project Contracting & Labor Service*, 2016, No.9, P30-33

The second type is the one focused on Resource Utilization. It focuses on exploiting the resources and energy, which are abundant in the local country but scarce in China, such as minerals, new energy and so on. For example, the Zambia-China Economic and Trade Cooperation Zone.

The third type is the one focused on Agricultural Production. It focuses on the industrialization of local characteristic agricultural products, especially the development of cash crops. For example, the Sino-Thai Agricultural Park in Thailand.

The fourth type is the one focused on Commerce and Logistics. It focuses on providing comprehensive services such as trade logistics. These parks often provide functions such as commodity display, goods distribution, warehousing, and information services. For example, the Sino-European Trade and Logistics Cooperation Park in Hungary.

The fifth type is the one focused on Technical Research and Development. It focuses on fully exploiting local technological advantages and innovation networks, so as to improve the innovation capabilities of enterprises in the park and keep up with cutting-edge technologies. These parks are often distributed in developed countries, such as the Zhaoyan Technology Park in San Francisco, USA.

In addition, some scholars and research institutions also try to classify according to their own standards, which are generally divided into six types: (1) Agricultural industrial parks, mainly for the production of agriculture, forestry, animal husbandry, fishery, etc.; (2) Light industrial park, mainly refers to the production of textiles, food, household appliances and other products; (3) Heavy industrial park, mainly refers to the processing of petroleum, electronic, chemical and other products, especially the energy resources; (4) Logistics Park, which mainly focuses on logistics trade, and transports commodities to other countries for trade cooperation through logistics; (5) High-tech Park, based on high-tech, produces cutting-edge high-tech products; (6) Comprehensive industrial parks, covering two or more types of parks above, are generally parks integrating multi-functional industries<sup>34</sup>.

## 2.2 The Development of China's Overseas Industrial Parks

2005 was a pivotal year for China's overseas industrial parks. Before 2005, the construction of China's overseas industrial parks was mainly based on the self-exploration of enterprises. After 2005, the Chinese government began to proactively issue policies for overseas industrial parks to

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<sup>34</sup> Li Humei, Wu Mingquan, Niu Zheng and Li Qi, "Information dataset of China's overseas industrial parks from 1992 to 2018", *China Scientific Data*, 2019, No.4, P68-78; Yan Bing, Jia Huihui, "Promote the high-quality development of overseas economic and trade cooperation zones", *Chinese Social Sciences Today*, 2020.05.08

support the development of industrial parks. There are three important time points of development: (1) At the end of 2005, the Ministry of Commerce announced the overseas industrial park policy, which marked the official participation of the government in the construction of overseas industrial parks. (2) In 2008, the State Council announced its support for the policy for overseas industrial parks, marking that overseas industrial parks have become a national policy and strategy. (3) In 2013, BRI was proposed to accelerate the policy and construction of overseas industries.

### **2.2.1 Self-exploration of Enterprises before 2005**

Before 2005, the construction of China's overseas industrial parks was a self-exploration of enterprises. In the process, these enterprises accumulated a lot of experience in overseas industrial parks, which became the basis for government policies and plans later. In fact, the construction of China's overseas industrial parks has been in progress since the late 1990s.

The first China's overseas industrial park is the Vietnam Linh Trung Processing Zone. This is a 50-year industrial park project started in 1992. It is invested and developed by China National Electric Import & Export company and Saigon Industrial Park development company. Since 1992, the industrial park has experienced three stages of development, covering more than 320 hectares at present. In 2016, the total import and export volume reached 4.7 billion US dollars, creating 96,000 local employment opportunities.<sup>35</sup>

During the same period, there were other representative overseas industrial parks: (1) In 1998, Fujian Province Overseas Chinese Industrial Group established an industrial park in Cuba, with the main business of producing and exporting beach shoes. In 2000, the company built another industrial park covering 60,000 square meters to further expand the business of overseas processing and trade. (2) China Haier Group built its first overseas industrial park of home appliance production in South Carolina in 2000. These products are mainly refrigerators, which are supplied to the local market. (3) In 2004, Tianjin Port Free Trade Zone Investment company established a trade and industrial park in Greenville, South Carolina. It aims to provide better services for Chinese enterprises' investment and export business to the United States.

### **2.2.2 Emergence and Improvement of Overseas Industrial Park Policy 2005-2008**

2005 was a crucial year for overseas industrial parks, when the Ministry of Commerce of China issued a number of policies to support overseas industrial parks. There are two main reasons for

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<sup>35</sup> China National Electric Import & Export Company, "Introduction of Linh Trung Processing Zone", <http://www.cuec.com.cn/en/info-10-c.html#ywbj>. Last visited: 2025.01.10

this: (1) The achievements of overseas industrial parks in the stage of enterprise self-exploration (before 2005) have attracted the great attention of the government. (2) While China's foreign trade has achieved rapid development, it has also encountered the problems such as being locked down at the low end of the value chain. Hence, the Chinese government hoped that overseas industrial parks can expand the international market for Chinese products, build an overseas supply chain, and upgrade its position in Global Value Chain.

In 2005, the Ministry of Commerce issued the official document of the overseas industrial park, *Chinese Government's Supporting Policies and Measures for Overseas Economic and Trade Cooperation Zone*, which marked the beginning of policy support for the overseas industrial parks. It aims to promote a group of relatively high-standard overseas industrial parks through policy support for overseas industrial parks, which have passed the government assessments. In November 2006, the "Haier-Ruba Economic Zone" in Pakistan was recognized as the first overseas industrial park which received this policy support. Subsequently, another 20 industrial parks were qualified for policy support.

2008 was another crucial year for overseas industrial parks policy, because the State Council issued the *Opinions on Agreeing to Promote the Construction of Overseas Economic and Trade Cooperation Zone*, which means that support for overseas industrial parks has become a national strategy. The biggest change it brings is that it is no longer just the Ministry of Commerce of China to implement the policy support; other ministries, such as the Ministry of Finance, have also begun to participate. It turned out to be a policy led by the State Council and jointly promoted by multiple ministries. Based on this adjustment, the Chinese government has given greater and more comprehensive support to overseas industrial parks since 2008, including financial support, insurance support and risk prevention support, etc. For example, in June 2010, the Ministry of Commerce and China Export & Credit Insurance Corporation jointly issued *Notice on Strengthening Risk Prevention in Overseas Economic and Trade Cooperation Zone*.

### **2.2.3 Rapid Development under BRI since 2013**

Since 2005, China's overseas industrial park policy has been practiced and improved for a long time. This allows China, after the BRI were proposed in 2013, to launch a series of relevant policies to promote the development of overseas industrial parks, such as *Notice on Supporting the Construction and Development of Overseas Economic and Trade Cooperation Zone* in 2013, *Model Service Guidelines for Overseas Economic and Trade Cooperation Zone* in 2015 and so on. As a result, China's overseas industrial parks have achieved a blowout growth since 2013, "from 2013

to 2018, the average annual growth rate of my country's overseas industrial parks was as high as 45.6% <sup>36</sup>.

However, with the increase in the number of industrial parks, the problems encountered by overseas industrial parks have become increasingly numerous and complex. This puts forward higher requirements for overseas industrial park policies: (1) Policies need to be more professional; (2) The government also needs to provide some indirect and related support policies, such as insurance policies for overseas investments.

To sum up, although it is difficult to improve the overseas industrial park policy in accordance with the above two aspects, China still has an advantage: the government has accumulated many experiences and reflections after ten years of policy implementation.

## **2.3 China's Overseas Industrial Park Policies**

### **2.3.1 Emergence of Policies**

The biggest challenge in policy formulation is the lack of specific and clear definitions and standards. As a result, overseas industrial park policies need to be applied to various overseas industrial parks in different countries, types and industries. Hence, the dilemma of policy is on the one hand, it cannot be too specific and detailed, so as to provide more flexible support for overseas industrial parks in different regions and different types; on the other hand, it cannot be too general and vague, because this will cannot be implemented by the government departments.

The first task of policymaking is that the government needs to find a clear definition of its own, which can be accepted by all government departments. In this regard, the Ministry of Commerce tried to use OETCZ to uniformly name and define overseas industrial parks. This definition does not appear out of thin air but is based on research and observation of existing overseas industrial parks. The definition of OETCZ not only includes the common features of general overseas industrial parks but also includes the Ministry of Commerce's planning for future overseas industrial parks.

In fact, China's policy support for the overseas industrial park is a series of policies formulated around OETCZ. These policies aim to achieve two effects. (1) Guiding effect. The Ministry of Commerce of China hopes to use OETCZ as a model industrial park, so as to provide a more specific and vivid reference standard for other overseas industrial parks' planning and operation, instead of giving a very detailed definition and description of overseas industrial parks. (2) Provide a focus

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<sup>36</sup> Sun Ping, "The Belt and Road Initiative has entered a stage of high-quality development", *Chinese Social Sciences Today (newspaper)*, 2020.09.10

point of policy support. Overseas industrial parks can be certified as OETCZ only after they pass the government's assessment. In this way, the number of supporting objects will be greatly reduced. The government can formulate more comprehensive and specific policies around these objects, including support in finance, taxation, export audit, insurance, etc.

In addition, it should be noted that: (1) There are two levels of qualification certification for OETCZ: national and provincial. There will be differences in assessment standards and support measures between the two, but they are both based on the official definition of OETCZ. Overseas industrial parks can apply to different levels according to their own conditions. Ministries (Ministry of Commerce, Ministry of Finance) are responsible for the assessment of national-level OETCZ, and provincial governments (Provincial Departments of Commerce, Provincial Departments of Finance) are responsible for the assessment of provincial-level OETCZ. (2) The assessment of OETCZ by the Chinese government is a long-term and periodic process. At present, there are mainly two types of assessment, confirmation assessment and annual assessment. Confirmation assessment is to check whether OETCZ meets the definition and standards. The annual assessment is an annual review of the construction and operation of OETCZ according to the requirements of the regulations.

### **2.3.2 Main Policies for OETCZ**

Three major policies for OETCZ can be regarded as milestones: (1) In 2005, the Ministry of Commerce issued *Chinese Government's Supporting Policies and Measures for Overseas Economic and Trade Cooperation Zone*, which marked the official launch of the overseas industrial park policy. (2) In 2006, the Ministry of Commerce issued *Basic Requirements and Application Procedures for Overseas China Economic and Trade Cooperation Zone*, which marked the official start of the application and assessment procedures; (3) In 2008, the State Council issued *Opinions on Agreeing to Promote the Construction of Overseas Economic and Trade Cooperation Zone*, indicating that this policy has been elevated to a national policy. This means that multiple national ministries work together to promote and implement the overseas industrial park policy, instead of the Ministry of Commerce alone being responsible for it.

In addition, in the development of more than ten years, the OETCZ policy has gradually become comprehensive. The rapid development was the period from 2008 to 2015, during which many relevant policies were released. There are two main reasons: (1) The definitions and policies previously proposed are too vague. It needs more specific and actionable policies to ensure that the OETCZ policy can be implemented at the practical level. (2) The importance of overseas

industrial parks was mentioned in the BRI proposed by President Xi Jinping in 2013 and the International Production Capacity Cooperation proposed by Premier Li Keqiang in 2015. As a result, government departments have accelerated the development of the OETCZ policy.

#### 2008-2015 Overseas Economic and Trade Cooperation Zone Policies

Time	Document	Department
2008.01	Interim Measures for Confirmation and Assessment of Overseas Economic and Trade Cooperation Zone; Interim Measures for the Management of Development Funds of Overseas Economic and Trade Cooperation Zone	Ministry of Commerce, Ministry of Finance
2008.02	Opinions on Agreeing to Promote the Construction of Overseas Economic and Trade Cooperation Zone	State council
2010.04	Chinese Government's Supporting Policies and Measures for Overseas Economic and Trade Cooperation Zone	Ministry of Commerce
2010.06	Notice on Strengthening Risk Prevention in Overseas Economic and Trade Cooperation Zone	Ministry of Commerce, China Export & Credit Insurance Corporation
2011.03	Notice on the progress related to the confirmation and assessment of overseas economic and trade cooperation zone in 2011	Ministry of Commerce, Ministry of Finance
2013.12	Notice on Supporting the Construction and Development of Overseas Economic and Trade Cooperation Zone	Ministry of Commerce, China Development Bank
2013.05	Administrative Measures for Confirmation Assessment and Annual Assessment of Overseas Economic and Trade Cooperation Zone	Ministry of Commerce, Ministry of Finance

2015.08	Measures for the Assessment of Overseas Economic and Trade Cooperation Zone	Ministry of Commerce, Ministry of Finance
2015.08	Model Service Guidelines for Overseas Economic and Trade Cooperation Zone	Ministry of Commerce

In addition to the above-mentioned policies that have a direct impact on OETCZ, there are also many indirect relevant policies that are beneficial to overseas investment and industrial parks. Policies on overseas investment are also effective for OETCZ, because the investment in overseas industrial parks is a type of China's overseas investment. For example, *Management Measures of Overseas Investment* issued by the Ministry of Commerce in September 2014; *Code of Conduct for Private Enterprises' Overseas Investment and Operation* issued by the National Development and Reform Commission in November 2017; *Guidelines for the Compliance Management of Enterprises' Overseas Operations* jointly formulated in December 2018 by the National Development and Reform Commission, the Ministry of Foreign Affairs, the Ministry of Commerce, the People's Bank of China, the State-owned Assets Supervision and Administration Commission, the State Administration of Foreign Exchange, and the All-China Federation of Industry and Commerce.

### 2.3.3 Interpretation of OETCZ Policies

The policy of OETCZ has gradually become the best way for the government to manage China's overseas industrial parks. It is because of the emergence of the OETCZ policy that the Chinese government has avoided the management difficulties of the sharp increase in overseas industrial parks. It should be said that OETCZ policy has achieved the expected effect, that is, guiding and regulating China's overseas industrial parks.

Specifically, China's OETCZ policy has the following three characteristics:

**Inclusiveness.** Although the Chinese government has given an official definition of the overseas industrial park, the government does not mandate that all overseas industrial parks must fully meet this definition. For those overseas industrial parks were not identified as OETCZ, they still can get support from the policies on overseas investment. In fact, a relatively broad and inclusive definition allows overseas industrial parks to be more flexible in planning and operation, which is better suitable for their current situation overseas.

**Effectiveness.** It is impossible for the Chinese government to provide policy support for every overseas industrial park, so the most effective way is to encourage all overseas industrial parks to

apply for the qualification certification of OETCZ. In this way, policy support can be concentrated on those industrial parks that have passed the government assessment, thereby improving the pertinence and effectiveness of policy support.

Fairness. In this policy, the Chinese government does not directly support a specific overseas industrial park with funds and some unfair privileges. Instead, it is through open and strict government assessments to decide the objects of policy support. And the assessment team is highly professional, as its members come from government departments such as the Ministry of Commerce and the Ministry of Finance, from professional evaluation agencies such as Chinese consulting companies, as well as from financial institutions such as China Development Bank.

The crucial development of China's overseas industrial park policy is mainly in two aspects: (1) Conceptual improvement. The official definition of overseas industrial parks was formed in 2005 and 2006, but there are still many problems and incompleteness in this definition. In August 2015, after ten years of development and research, the Ministry of Commerce issued *Model Service Guidelines for Overseas Economic and Trade Cooperation Zone*, which made a more comprehensive description of China's overseas industrial parks. (2) Improvement of assessment standards. The unification and improvement of assessment standards and methods enable government departments to manage, plan and support overseas industrial parks in a more targeted manner. In other words, after more than ten years, assessment standards have become more and more specific, practicable and complete. There are three important time points: 2008 (*Interim Measures for Confirmation and Assessment of Overseas Economic and Trade Cooperation Zone*; *Interim Measures for the Management of Development Funds of Overseas Economic and Trade Cooperation Zone*), 2013 (*Administrative Measures for Confirmation Assessment and Annual Assessment of Overseas Economic and Trade Cooperation Zone*; *Notice on Supporting the Construction and Development of Overseas Economic and Trade Cooperation Zone*), 2015 (*Measures for the Assessment of Overseas Economic and Trade Cooperation Zone*).

In addition, in the early stage of the formulation of China's overseas industrial park policy, the rational and cautious attitude of government departments is praiseworthy. At that time, the biggest risk in policymaking was that the policy might be too optimistic and aggressive. There are two reasons for this risk: (1) The time pressure. At that time, China's overseas investment continued to expand, and the number of overseas industrial parks continued to increase. The government needs to formulate overseas industrial park policies as soon as possible to deal with the sharp increase. Under this circumstance, the government was very likely to launch the overseas industrial park policy in a hurry without careful consideration. (2) Over-optimism. Up to 2005, the

domestic industrial parks in China have developed for more than 25 years. And China had accumulated considerable experience and management methods. But this advantage may also lead to over-optimism in policy formulation, which made it very likely that the government would impulsively and arbitrarily apply the definition and standards of domestic industrial parks to overseas industrial parks without considering the actual situation.

## 2.4 Literature Review

### 2.4.1 Research on Functions

The motivation of the Chinese government to support overseas industrial parks. China hopes to provide a better environment for Chinese enterprises' overseas investment through overseas industrial parks. This is necessary, because Chinese enterprises have encountered problems that they cannot solve themselves in the process of overseas investment: (1) Many Chinese companies are investing overseas for the first time. They are not well prepared due to inexperience, such as the actual need for funding far more than they expected. (2) The investment objects are mainly the countries with insufficient infrastructure and institutions (political, economic and legal institutions), which increases the risk and cost of investment. All in all, the investment risks and costs caused by the above reasons have far exceeded the level that Chinese companies can afford.

Ministry of Commerce's definition of the function. The complete official definition can be found in document *Assessment Measures for Overseas Economic and Trade Cooperation Zone* jointly issued by the Ministry of Commerce and the Ministry of Finance in 2015: "OETCZ refers to industrial parks that are independent legal entities and receive investment from and are established overseas by Chinese-owned companies that are registered in the territory of the People's Republic of China (excluding Hong Kong, Macao and Taiwan) and have independent legal status. OETCZ should be equipped with complete infrastructure, and have a clear industrial development strategy, and provide sound public services, promote industrial concentration and play a catalytic role for local development<sup>37</sup>". In August 2015, the Ministry of Commerce released *Service Guide Template for Overseas Economic and Trade Cooperation Zone*. The service function of OETCZ was supplemented with four specific functions: information consulting services, operation management services, property management services, and emergency response services<sup>38</sup>.

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<sup>37</sup> Ministry of Commerce & Ministry of Finance of China, *Measures for the Assessment of Overseas Economic and Trade Cooperation Zones*, 2015.08.14, Document No. (2015) 296

<sup>38</sup> Ministry of Commerce of China, *Model Service Guidelines for Overseas Economic and Trade Cooperation Zone*, 2015.08.04, Document No. (2015) 408

Based on the official definition and literature, this paper attempts to summarize two functions according to the service objects: the function for a single enterprise and the function for all enterprises inside the industrial park.

Function 1: For a single enterprise. OETCZ can promote overseas investment by providing infrastructure and services: (1) Providing enterprises with complete industrial production infrastructure. This is especially important and attractive in developing countries with poor industrial infrastructure. (2) Providing two types of services to enterprises: public services and business services. In terms of public services, it mainly provides local legal advice, policy advice, and emergency management, such as natural disasters, strikes, coups and so on. In terms of business services, it mainly provides one-stop services and an introduction to local business activities, such as local product exhibitions. The industrial parks that have done better in terms of services include Thailand-China Rayong Industrial Park, Cambodia Sihanoukville Special Economic Zone, etc.

Function 2: For all enterprises in the industrial park. OETCZ can continuously improve and optimize the investment environment within the park. To be specific, OETCZ can turn the agglomeration effect, which formed within the industrial park as more and more enterprises enter, into more favorable investment conditions. This will not only provide enterprises with a better business and investment environment, but also improve the competitiveness of the industrial park in attracting investors. This function can be achieved in two ways: (1) The greater the agglomeration effect, the more local preferential policies the industrial park can obtain. (2) The industrial park can actively guide and expand the effect of industrial agglomeration, so that enterprises in the park can share risks and resources<sup>39</sup>. For example, industrial parks and enterprises can jointly set up local Chinese schools and vocational training schools to realize the sharing of local human resources.

#### **2.4.2 Research on Main Challenges**

There are five problems in total, which can be divided into two groups according to the different stages. There are two problems before the construction of the industrial parks and three problems after the construction.

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<sup>39</sup> Shen Minghui, Zhang Zhongyuan, "China Overseas Economic and Trade Cooperation Zone: A Capacity Cooperation Platform of the 'Belt and Road'", *Expanding Horizons*, 2016, No.3, P110-115; Du Juan, "Research on the Development of Overseas Economic and Trade Cooperation Zones under BRI", *Accounting learning*, 2018, No.9; Qi Xin, Yang Chao, "Discussion and Suggestions on Several Issues in the Construction of Overseas Economic and Trade Cooperation Zones", *Intertrade*, 2018, No.6, P30-33, 66; Li Chunding, "The construction of overseas economic and trade cooperation zones and the 'going out' of Chinese enterprises", *Foreign Investment in China*, 2008, No.8, P64-66

### **Problem 1: Challenges in planning and site selection**

Encouraged by OETCZ policy and BRI, some inexperienced Chinese investors have invested overseas industrial parks without long-term planning. This has led to many problems.<sup>40</sup> The reason may be that they hope to be ahead of other competitors. The sooner their overseas industrial parks are established, the sooner they can benefit from preferential policies and become the first choice for Chinese enterprises to invest overseas.

But this has led to some problems, such as the fact that the advantage of low production costs is not as obvious as expected, because the infrastructure and transportation conditions around the industrial park are not good enough. For another example, multiple overseas industrial parks in one country or two neighboring countries at the same time, which will result in excessive or vicious competition between each other. It also happens in OETCZs.<sup>41</sup>

In this regard, the government can do nothing about it, because the government does not know how to better guide and support, as China's overseas industrial parks are in the early stages<sup>42</sup>. For example, some local governments over-expect and encourage the overseas investment of enterprises, leading to misguided or over-guided construction of the parks.<sup>43</sup> And it is completely impossible for the government to directly allocate every overseas industrial park to a geographic location.

Moreover, rash investment from Chinese enterprises is sometimes further stimulated by preferential policies in some developing countries, which are eager for Chinese investment. When two neighboring countries are both seeking investment from China, they will provide more generous support. Under such circumstances, it will be more difficult for them to remain calm and rational<sup>44</sup>.

### **Problem 2: Financial challenges**

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<sup>40</sup> Zhang Mei, Dong Guangyao, "Cooperation zone is an important connection point of the Belt and Road Initiative", *China Investment*, 2015, No.7, P38-39; You Hongbing, Cheng Nan, Yang Lei, "Characteristics and Development Suggestions to Overseas Industrial Park Construction", *Journal of International Economic Cooperation*, 2017, No.2, P36-41; Hu Jianguyun, Zhao Shubo, Wang Xiuzhe, "Research on Overseas Economic and Trade Cooperation Zones under the Concept of BRI", *Development Research*, 2017, No.1, P8-12

<sup>41</sup> Hong Lianying, Zhang Yun, "The construction of overseas economic and trade cooperation zones and the 'going out' strategy of enterprises", *Guoji Jingmao Tansuo*, 2011, No.3, P48-54; Zhu Nina, Fan Dan, "Research on China's Overseas Economic and Trade Cooperation Zones", *Beifang Jingmao*, 2017, P11-17; Zhang Yin, "Research on the Development Status of China's Overseas Economic and Trade Cooperation Zones", *China Journal of Commerce*, 2018, No.22, P66-67

<sup>42</sup> Hu Jianguyun, Zhao Shubo, Wang Xiuzhe, "Research on Overseas Economic and Trade Cooperation Zones under the Concept of BRI", *Development Research*, 2017, No.1, P8-12

<sup>43</sup> Wuzhati Yeerken, Zhang Wei, Liu Zhigao, "Research on the construction mode of overseas parks along the Belt and Road", *Bulletin of Chinese Academy of Sciences*, 2017, No.4, P355-362

<sup>44</sup> Zhang Yin, "Research on the Development Status of China's Overseas Economic and Trade Cooperation Zones", *China Journal of Commerce*, 2018, No.22, P66-67

This is a crucial but difficult problem to solve. (1) The construction requires a long-term and continuous investment of a large amount of capital; (2) The profit cycle of the industrial park is too long. After the construction of the overseas park is finished, the industrial park will be profitable only if enough enterprises enter; (3) The income model is limited. Currently, there are two main types of income, land income and service income.

It is difficult to raise funds from China's domestic financial institutions for overseas industrial parks. The current regulations on financial loans and mortgages are only applicable in China. Hence, for overseas investment, including financing for the construction of overseas industrial parks, financial institutions will be very cautious and conservative<sup>45</sup>.

It is difficult to raise funds from local financial institutions for China's overseas industrial parks. (1) Qualification for the local loan. Similar to the above situation, the assets and reputation of OETCZ investors, which are recognized by Chinese financial institutions, cannot be recognized by financial institutions in local countries. As a result, before the start of construction, OETCZ is not qualified to borrow and mortgage at local financial institutions. (2) The Interest rates on loans and mortgages are too high. Some interest even exceeds the income of overseas industrial parks<sup>46</sup>. The main reason is the incomplete financial system and lack of financial instruments. For example, the interest rate of commercial bank loans in Egypt is as high as 13% to 14%<sup>47</sup>.

All in all, raising funds for the overseas industrial park construction is difficult both in China and in the local country. Under such circumstances, Chinese domestic financial institutions are expected to give more financial support<sup>48</sup>. Of course, this will take a long time to achieve, especially in terms of regulations and financial instruments.

### **Problem 3: Lack of mature profit model**

For China's overseas industrial parks, which are in the early stage of development, the biggest constraint at present is the lack of experience in operations. One of the most important and urgent problems is that there is no mature profit model<sup>49</sup>. On the contrary, Singapore has relatively rich

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<sup>45</sup> Wuzhati Yeerken, Zhang Wei, Liu Zhigao, "Research on the construction mode of overseas parks along the Belt and Road", *Bulletin of Chinese Academy of Sciences*, 2017, No.4, P355-362

<sup>46</sup> Zhou Mi, "Overseas Economic and Trade Cooperation Zone: An Important Platform for the Sustainable Development of Chinese Enterprises", *International Project Contracting & Labor Service*, 2017, No.10, P26-30

<sup>47</sup> Jia Lingjun, Sa Qiurong, "An Analysis of the Development Status of China's Overseas Economic and Trade Cooperation Zones", *Practice in Foreign Economic Relations and Trade*, 2015, No.8, P25-28

<sup>48</sup> He Jia, "Overseas Economic and Trade Cooperation Zone: A Win-Win Platform for the Belt and Road Initiative", *21st Century Business Herald*, 2017.03.29

<sup>49</sup> Bo Wenguang, Chen Lulin and Hu Yi, "Research on the Sustainable Development of China's Overseas Economic and Trade Cooperation Zones under the Belt and Road Initiative", *Journal of Chang'an University*, 2018, Vol.20, No.4, P64-74

experience and a mature operation model in this regard, because Singapore has invested in its overseas industrial parks earlier than China. For example, as early as 1994, Singapore and China jointly built the Suzhou Industrial Park, which has become one of the top industrial parks with a huge scale and influence in China. Singapore has also invested in overseas industrial parks in many Southeast Asian countries at the same time. Therefore, the long-term investment has enabled Singapore to have its own understanding and model for the development, operation and revenue of overseas industrial parks.

Huge cost. In the planning stage, some overseas industrial parks do not consider carefully the cost due to their lack of experience. (1) A common problem is that some parks' plan focuses too much on the very basic infrastructure such as land renovation. But after the construction was completed, it was found that the infrastructure such as water and electricity supply and sewage discharge around the industrial park could not support production activities at all. Therefore, overseas industrial parks had to pay more fees to build many infrastructure facilities that could sustain production. As concluded by Qi Xin and Yang Chao, the ultimate goal of China's overseas industrial parks is to make profits, but these operating costs put a huge burden on these industrial parks<sup>50</sup>. (2) Some parks' plans underestimated the cost recovery period, resulting in a very slow recovery of their actual costs.<sup>51</sup> The overseas industrial park is not able to make profits immediately after the construction, until enough companies enter the park. For example, according to the statistics of Li Dan and Chen Yougeng, within three years after the construction of the China-Egypt Industrial Park in Suez, "the average annual profit was 418,000 US dollars, while the total investment had reached 80 million US dollars. It means the yearly rate of return on investment was only 0.52%. If this ratio continues, it will take 192 years for the industrial park to recover its investment cost"<sup>52</sup>. (3) Some parks' plans ignored the lack of policy support from the local government, resulting in a higher actual cost than expected. Based on their own experience of industrial parks in China, many OETCZs take it for granted that they can get the same level of attention and policy support overseas, because industrial parks can promote local industrial development and increase employment. But in fact, the support for industrial parks in many countries is not very strong. Even though some countries attach great importance to OETCZ, they cannot put forward effective support measures due to experience and institutional reasons. For example, the current infrastructure investment

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<sup>50</sup> Qi Xin, Yang Chao, "Discussion and Suggestions on Several Issues in the Construction of Overseas Economic and Trade Cooperation Zones", *Intertrade*, 2018, No.6, P30-33, 66

<sup>51</sup> Zan Baosen, "Overseas Economic and Trade Cooperation Zones and 'going out' Strategy", *China Nonferrous Metals*, 2010, No.1, P137-142

<sup>52</sup> Li Dan, Chen Yougeng, "Foreign Aid and Construction of Overseas Economic and Trade Cooperation Zone", *China Opening Journal*, 2015, No.1, P51-53

cost of the OETCZ in Ussuriysk has exceeded expectations by 200 million yuan, due to the high cost of local infrastructure and the lack of supportive policies from the local government<sup>53</sup>.

Most overseas industrial parks adopt installment investment to deal with this cost problem. Specifically, instead of completing all the construction at once, they will build partially and start to earn revenue by attracting enterprises to enter. Construction of the next phase will begin when relatively sufficient income is obtained, for example, the China-Egypt Industrial Park in Suez<sup>54</sup>. But this requires more precise planning and cost control by the industrial investors at every stage. It is not easy, because some industrial parks overestimated the completion of the first phase, resulting in insufficient funds to complete the first phase of construction.

There are still two main problems with the profit model. The first problem is the limited attraction to enterprises. (1) There are too many industrial parks that enterprises can choose from. For example, in Southeast Asia, enterprises can choose not only OETCZ, but also overseas industrial parks built by investors from Japan, South Korea and Singapore. (2) The competition among the OETCZ. Sometimes two or more OETCZ coexist in the same region, resulting in fierce competition among them in terms of attracting investment. In order to defeat other competitors, some of them may propose preferential conditions that will reduce their own benefits. (3) Strick requirements for entering enterprises. OETCZ only welcomes those enterprises with good development prospects and huge profits, so as to ensure that these enterprises will not default on the payment to OETCZ. But the Chinese enterprises that want to enter OETCZ (which mostly located in the developing countries) are mainly medium-sized enterprises, and it is difficult to judge whether their investment will be successful or whether they can afford to pay for the industrial park<sup>55</sup>.

The second problem is the unsustainable income model. (1) Land income is high but not sustainable. The construction of OETCZ increases the land in value with infrastructure development. Selling or leasing these value-added lands can quickly make huge profits, but not always. (2) The services income is limited because many OETCZ can only provide some basic business services and property services at present. These services' income mainly refers to the fees for infrastructure like water and electricity, the usage fee for public facilities, and the rental fee for factory buildings or equipment provided by OETCZ<sup>56</sup>.

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<sup>53</sup> Gao Chao, "A Review of Six Years of Construction of China's Overseas Cooperation Zones", *China's Foreign Trade*, 2013, P30-33

<sup>54</sup> Lu Hongyan, "Experience and Enlightenment of the Development of China's Overseas Economic and Trade Cooperation Zones", *Foreign Economic Relations & Trade*, 2013, No.10, P7-10

<sup>55</sup> Li Chunding, "The construction of overseas economic and trade cooperation zones and the 'going out' of Chinese enterprises", *Foreign Investment in China*, 2008, No.8, P64-66

<sup>56</sup> Qiao Huijuan, "Risk Prevention of Overseas Economic and Trade Cooperation Zones", *Commercial Times*, 2014,

#### **Problem 4: The limited effect of industrial agglomeration**

An important reason for the high expectation for OETCZ is that they may form a complete industrial chain around a product. Industrial agglomeration and scale effect will be formed when all the upstream and downstream enterprises of a product are gathered together within OETCZ. In other words, China wants OETCZ to play a role similar to that of large multinational companies in organizing the industrial chain, so that Chinese small and medium-sized enterprises can form a complete industrial chain. As Zhang Zhongyuan mentioned, the advantage of OETCZ is the effect of industrial clusters and enterprise agglomerations, rather than simply bringing unrelated enterprises to the same geographic location<sup>57</sup>.

But until now, the agglomeration effect within OETCZ is not obvious. On the contrary, many overseas industrial parks, including some OETCZ, try to avoid the identification of their main products and industries from the beginning, because they cannot judge which products and industries would have the most market prospects and the most attractive to the enterprises. Moreover, even if some overseas industrial parks can make basic judgments about the market trends, they are still not willing to decide on the main product and industry in their park, because the risk is more than they can bear.

To sum up, compared with the risks and losses caused by misjudgment of major products and leading industries, many overseas industrial parks, including some OETCZ, are more willing to avoid this judgment, at least it can ensure their short-term benefits. This makes it difficult to classify China's overseas industrial parks, because more and more overseas industrial parks mark themselves as the type of comprehensive industrial parks, covering almost all the popular industries like manufacturing, commerce, logistics, service, leisure, etc.<sup>58</sup> The biggest advantage of doing this is that these industrial parks can attract as many enterprises as possible regardless of their products and industries. One of the most important reasons for this phenomenon is that the construction cost is too huge. In order to alleviate the financial pressure, many overseas industrial parks urgently need to attract enough enterprises to make profits<sup>59</sup>.

However, from a long-term perspective, without clear identification of the main product and

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No.15, P19-21; Li Dan, Chen Yougeng, "Foreign Aid and Construction of Overseas Economic and Trade Cooperation Zone", *China Opening Journal*, 2015, No.1, P51-53

<sup>57</sup> He Jia, "Overseas Economic and Trade Cooperation Zone: A Win-Win Platform for the Belt and Road Initiative", *21st Century Business Herald*, 2017.03.29

<sup>58</sup> Hong Lianying, Zhang Yun, "The construction of overseas economic and trade cooperation zones and the 'going out' strategy of enterprises", *Guoji Jingmao Tansuo*, 2011, No.3, P48-54

<sup>59</sup> Bo Wenguang, Chen Lulin and Hu Yi, "Research on the Sustainable Development of China's Overseas Economic and Trade Cooperation Zones under the Belt and Road Initiative", *Journal of Chang'an University*, 2018, Vol.20, No.4, P64-74

industry will lead to a lack of long-term strategic planning for these industrial parks. There will be two obvious problems. (1) The operation and management of overseas industrial parks will be very difficult after the entry of enterprises from different industries that are not related to each other. Because these enterprises have different needs, sometimes even in conflict with each other. For example, the different needs for public facilities and equipment from enterprises in different industries. (2) Without clear identification of the main product and industry, the overseas industrial parks cannot identify their main advantages, which makes them unable to concentrate on all resources to optimize and highlight their competitiveness. The end result is the homogeneous and vicious competition among these overseas industrial parks, which have no comparative advantages. For example, China's overseas industrial parks in Cambodia, Vietnam, and Thailand have a high degree of similarity in their functions and characteristics, resulting in inevitable competition when attracting enterprises<sup>60</sup>.

#### **Problem 5: Communication with local government**

OETCZ is expected to better communicate with the local government on behalf of the enterprises. (1) For enterprises, this is one of the biggest motivations that they choose to enter an OETCZ, instead of investing alone overseas. Because in an unfamiliar country, this will be the best way to communicate with the local government, saving time and cost. (2) For the local government of the host country, the OETCZ can provide unified feedbacks and demands of all enterprises within parks, which can improve the efficiency of public administration of China's overseas industrial parks. Otherwise, the local government needs to communicate with Chinese enterprise one by one. When these feedbacks and needs are better handled, it will further promote the overseas investment of Chinese enterprises in the host country, leading to the rapid development eventually of local development. (3) For the OETCZ itself, it is very necessary to communicate with the local government, especially in terms of infrastructure and public services, because great support from the local government is very important.

In addition, there is another important reason that OETCZ has to communicate and negotiate with local governments. That is to form a consensus on the detailed implementation of the intergovernmental cooperation agreement between China and the host country. Driven by BRI, most of the countries where China's overseas industrial parks are located, have signed intergovernmental agreements with China, which are conducive to economic cooperation. However, these agreements are very broad and general, because they are signed by the leaders of

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<sup>60</sup> Wang Jianhua, "Strategic thinking on the construction of overseas industrial parks in the Belt and Road region", *Journal of Technical Economics & Management*, 2018, No.1, P122-127

both sides, and there is no explicit mention of specific policy support and implementation methods. Based on this, it requires very frequent and closer communication and negotiation between OETCZ and the local government, so as to better implement the intergovernmental agreement. This is very important because the fact is that due to differences in language, culture, institution and history, many China's overseas industrial parks and local governments have different understandings and interpretations of intergovernmental agreements, which ultimately hinders the specific implementation.

But unfortunately, the current communication progress is not very smooth. There are two obvious reasons. (1) The lack of detailed cooperation mechanisms between China and these countries, especially the communication mechanism between OETCZ and local governments. It is necessary for both parties to establish a cooperation mechanism or team to understand and track the actual situation of the implementation of these agreements. (2) Both of them lack experience in communication. OETCZ lacks experience in communication with local governments. The local governments lack experience in dealing with foreign investment. For example, some developing countries are keen on Chinese investment, but they failed to provide sufficient and comprehensive policy support, due to their lack of experience in attracting foreign investment before.<sup>61</sup>

### **2.4.3 Research on BRI and OETCZ**

BRI attaches great importance to OETCZ. Promoting OETCZ is mentioned in the three most important official documents of the BRI: (1) In 2015, the Chinese government released the first comprehensive official document on the BRI, called *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. It mentioned that support should be given to various industrial parks such as OETCZ and cross-border economic cooperation zones, thereby promoting the development of Chinese industrial clusters overseas. (2) *The first Belt and Road Forum for International Cooperation* was held in 2017. During the meeting, the Chinese government released the official document *Building the Belt and Road: Concept, Practice and China's Contribution*<sup>62</sup>. It also mentioned OETCZ: "To the end of 2016, Chinese enterprises have invested more than 18.5 billion US dollars in 56 OETCZs which are located in 20 BRI countries. The OETCZ has become an important carrier for deepening investment cooperation...China is actively exploring the construction of the OETCZ, in order to build a modern international trade platform with agglomeration effect for Eurasia and neighboring countries". (3) *The Second Belt and Road*

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<sup>61</sup> Zhang Mei, Dong Guangyao, "The cooperation zone is an important connection point of the Belt and Road Initiative", *China Investment*, 2015, No.7, P38-39

<sup>62</sup> Office of the Leading Group for the Belt and Road Initiative, *Building the Belt and Road: Concept, Practice and China's Contribution*, 2017.05.10

*Forum for International Cooperation* was held in 2019. During the meeting, the Chinese government published the official document for the further planning, called *The Belt and Road Initiative: Progress, Contributions and Prospects*<sup>63</sup>. The document also mentioned OETCZ: "These industrial parks promote the economic development of local countries and create new tax sources and jobs for BRI countries. ... China hopes to deepen mutual benefits in the economic and trade cooperation with BRI countries, expand the scale of bilateral and multilateral investment and trade, ... promote industrial cooperation through OETCZ".

Support measures of the BRI to OETCZ. It is mainly reflected in enhancing the investment environment for Chinese enterprises overseas through high-level intergovernmental agreements. As of 2019, the Chinese government has signed 173 cooperation documents with 125 countries and 29 international organizations.

Furthermore, the OETCZ has become more important in the BRI. The main reason is that BRI turns to focus on long-term planning, for example, the promotion of industrial transfer, international logistics, international trade, etc. The convincing evidence is the initiative of International Production Capacity Cooperation, which was proposed by Chinese Premier Li Keqiang in 2015. It complements the long-term goals of BRI, emphasizing the importance of the adjustment of industrial structure and international cooperation. According to the document of International Production Capacity Cooperation, overseas industrial parks such as OETCZ will provide a better overseas investment environment for Chinese enterprises, and improve the competitive advantages of Chinese enterprises by the agglomeration effect of these industrial parks<sup>64</sup>.

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<sup>63</sup> Office of the Leading Group for the Belt and Road Initiative, *The Belt and Road Initiative: Progress, Contributions and Prospects*, 2019.04.22

<sup>64</sup> State Council, *Guiding Opinions on Promotion of International Production Capacity and Equipment Manufacturing Cooperation*, 2015.05.13, Document No. (2015) 30

## Chapter 3 Role of China's Overseas Industrial Park in GVC Upgrading

### 3.1 Upgrading in GVC

#### 3.1.1 Theoretical Overview

##### Part A: The concept of Value Chains and Global Commodity Chains

Since the 1970s and 1980s, production has become more complex and internationalized. Scholars have increased their research on the international division of labor. The representative researchers are Michael Porter, who proposed the concept of Value Chain, and Gary Gereffi, who proposed the concept of Global Commodity Chain. They are all aware of a new development trend, that is, the increasing number of steps and participants in production makes the internationalization of the industrial chain more and more obvious.

The concept of Value Chain. Michael E. Porter mentions the value chain in his book *Competitive Advantage*<sup>65</sup>. It mainly refers to firms' activities in designing, producing, marketing, delivering, and supporting its product, which contributes to the firm's comparative advantage. To be specific, Porter used the Value Chain as the basic tool to analyze every activity and how they interact, in order to better analyze the source of comparative advantage. In other words, Porter wants to propose a new analysis method because the previous method of the value-added analysis (i.e., selling price less the cost of purchased raw materials) is difficult to apply to the current international division of labor. As Porter himself concluded: "value-added fails to highlight the linkages between a firm and its supplier that can reduce cost or enhance differentiation"<sup>66</sup>.

The concept of Global Commodity Chain. At first, Hopkins and Wallerstein proposed the Commodity Chain in 1977, which refers to a network of labor and production processes whose end result is a finished commodity<sup>67</sup>. On this basis, Gereffi and Korzeniewicz first proposed the Global Commodity Chain in 1990 and described it in detail in 1994: "it is a set of inter-organizational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world-economy. ... within a commodity chain involves the acquisition and/or organization of inputs, labor power, transportation, distribution, and consumption"<sup>68</sup>. In

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<sup>65</sup> Michael Porter, *Competitive Advantage*, New York: The Free Press, 1985, P33

<sup>66</sup> Michael Porter, *Competitive Advantage*, New York: The Free Press, 1985, P39

<sup>67</sup> Terence K. Hopkins and Immanuel Wallerstein, "Patterns of Development of the Modern World-System", *Review of Fernand Braudel Center*, 1977, No.2, P111-145

<sup>68</sup> Gary Gereffi, Miguel Korzeniewicz and Roberto P. Korzeniewicz, "Introduction: Global Commodity Chains", in *Commodity chains and global capitalism*, Gary Gereffi & Miguel Korzeniewicz (eds), 1994, Greenwood Publishing Group, P2

conclusion, the purpose of the Global Commodity Chain is to “allow us to focus on the creation and distribution of global wealth as embodied in a multidimensional, multistage sequence of activities, rather than as an outcome of industrialization alone”<sup>69</sup>.

### **Part B: Internationalization of GVC concept**

It is necessary to research globalization and global value chains, but the problem is that different scholars have their own understanding and interpretation, which leads to concept confusion. As a result, these scholars formed a consensus through the conferences held by the Institute of Development Studies (IDS) in 1999 and 2000. Later, UNIDO used the concept of global value chains in its report, which made it famous worldwide and eventually became a global concept.

#### **IDS conference (1999 and 2000)**

IDS from the University of Sussex has played an important role in the study of Global Value Chain. IDS held two international academic conferences in 1999 and 2000, bringing together many scholars in this field at that time. This has led to a certain degree of academic consensus on this concept.

In September 1999, IDS held a seminar called “Spreading the Gains from Globalization” at the University of Sussex in Brighton. It aimed to forge an integrated research framework that could link the macro (global), meso (industry and country), and micro (firm and community) levels of analysis, and generate novel findings and evidence-based policy proposals.<sup>70</sup> Specifically, the discussion was focused on the different research perspectives of industrial clusters in economic globalization, i.e., the perspective from the bottom-up (country level) perspective and the perspective from the top-down (international & global). Unfortunately, there was no consensus formed among these scholars.

At the seminar of IDS in 2000, the discussions of last year were continued, but this time a consensus was finally formed: the framework of the Global Value Chain. The seminar chose the term Global Value Chains due to<sup>71</sup>: (1) GVC are more inclusive than the global commodity chains, because commodity only refers to primary products, not including manufactured goods and services. (2) GVC can emphasize the effect of globalization on product value-added. In other words, it can

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<sup>69</sup> Gary Gereffi, Miguel Korzeniewicz and Roberto P. Korzeniewicz, “Introduction: Global Commodity Chains”, in *Commodity chains and global capitalism*, Gary Gereffi & Miguel Korzeniewicz (eds), 1994, Greenwood Publishing Group, P13

<sup>70</sup> Gary Gereffi, *Global Value Chains and Development - Redefining the Contours of 21st Century Capitalism*, Cambridge University Press, 2018, P15

<sup>71</sup> Timothy J. Sturgeon, “From Commodity Chains to Value Chains: Interdisciplinary Theory Building in an Age of Globalization”, in *Frontiers of Commodity Chain Research*, Jennifer Bair (eds), Stanford University Press, P110-135

highlight the process of creating, capturing and sustaining value in global supply chains.

There were 14 well-known scholars attended the seminar of IDS in 2000, including Gary Gereffi, John Humphrey, Raphael Kaplinsky, Hubert Schmitz, Timothy Sturgeon. In the end, these scholars developed a common framework for GVC, clarifying the importance of the global value chain in research and policymaking. Among these consensuses, there are two important points. Firstly, acknowledging its inclusiveness and importance. Global value chains refer to the most inclusive of the full range of possible chain activities and end products. Furthermore, this concept shifts the focus from production alone to the whole range of activities from design to marketing. Secondly, research on GVC will become more important, because it is critical to the stable order of globalization. To be specific, the GVC help develop a standardized and low-cost linkage mechanism, which can better deal with the increasing number of participants in globalization. The reasons for the increasing number of global participants are: (1) The development of information and communications technologies will lower the barriers for firms to enter globalization. (2) The growing global outsourcing. Because of the increasing product diversity, shorter product life cycles, and intensified international competition, many lead firms outsourced production and production-related functions to suppliers, especially in complex assembly industries such as autos, electronics, and apparel<sup>72</sup>.

### **UNIDO's use and promotion of the concept**

UNIDO is the first international organization to formally use the term global value chain, which has played a crucial role in the popularization and promotion of this concept on a global scale. In 2002, the Industrial Development Report of UNIDO featured an extensive discussion on innovation and learning in global value chains.

The 2002 Industrial Development Report emphasizes on the enterprises' benefits of participating in global value chains: "The advantage of latching onto global value chains is that firms can seek involvement at their level of technological competence. Competing in global value chains can build foundations for industrial innovation and learning. ... Particularly in manufacturing, the insertion of local activities in wider networks is an opportunity for developing countries to upgrade their capabilities<sup>73</sup>".

In UNIDO's latest report, GVC is defined as: "A value chain is the full range of activities that firms and workers do to bring a product from its conception to its end use and beyond, including design,

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<sup>72</sup> Gary Gereffi, John Humphrey, Raphael Kaplinsky, and Timothy J. Sturgeon(eds). "Introduction: Globalization, Value Chains and Development", *IDS Bulletin* Vol.32, No.3, 2001

<sup>73</sup> UNIDO, *Industrial Development Report 2002/2003: Competing through Innovation and Learning*, 2002

production, marketing, distribution and support to the final consumer. When firms are located in different economies, the value chain is considered global<sup>74</sup>.

### **Part C: Research on GVC upgrading**

After the emergence of the concept of GVC, more and more scholars have conducted in-depth research on it. There are roughly two directions: (1) Research on the GVC of a specific product. For example, the GVC of apparel products by Gary Gereffi and Olga Memedovic, and autos by John Humphrey and Olga Memedovic<sup>75</sup>. (2) Research on the upgrading of developing countries in GVC. This is important for development economics, especially for middle-income countries, because this upgrading is the crucial condition for the sustained growth of those countries.

The academic workshop of IDS also defined the GVC upgrading: The concept of upgrading refers to several kinds of shifts that firms or groups of firms might undertake to improve their competitive position in global value chains.<sup>76</sup>

However, a consensus on the upgrade process was hardly reached. Most scholars divide it into four steps. For example, the classification of Raphael Kaplinsky and Mike Morris is process upgrading, product upgrading, functional upgrading as well as chain upgrading<sup>77</sup>. The classification of John Humphrey and Hubert Schmitz is process upgrading, product upgrading, functional upgrading as well as inter-sectoral upgrading<sup>78</sup>.

Specifically, most scholars have no controversy about the first and second steps, but have their own understanding and naming of third and fourth steps. Hence, in the IDS report, the definitions of the first two steps are very detailed and specific, while the definitions of the last two steps are relatively vague and general<sup>79</sup>. In the report, the first step is process upgrading, refers to transforming inputs into outputs more efficiently through superior technology or re-organizing the

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<sup>74</sup> UNIDO, *Industrial Development Report 2022: The future of industrialization in a post-pandemic world*, 2021

<sup>75</sup> Gary Gereffi, Olga Memedovic, "The Global Apparel Value Chain: What Prospects for Upgrading by Developing Countries?" *United Nations Industrial Development*, 2003.06.23; John Humphrey, Olga Memedovic, "The Global Automotive Industry Value Chain: What Prospects for Upgrading by Developing Countries", *UNIDO Sectorial Studies Series Working Paper*, 2023.09.02; Raphael Kaplinsky, Olga Memedovic, Mike Morris, Jeffrey Readman, "The Global Wood Furniture Value Chain: What prospects for upgrading by developing countries?" *UNIDO Sectorial Studies Series Working Paper*, 2003.08.29

<sup>76</sup> Gary Gereffi, John Humphrey, Raphael Kaplinsky, and Timothy J. Sturgeon(eds). "Introduction: Globalisation, Value Chains and Development", *IDS Bulletin*, Vol.32, No.3, 2001

<sup>77</sup> Raphael Kaplinsky and Mike Morris, "A Handbook for Value Chain Research", *Institute of Development Studies*, 2001, P38

<sup>78</sup> John Humphrey and Hubert Schmitz, "Governance and Upgrading: Linking Industrial Cluster and Global Value Chain (IDS Working Paper 120)", *Institute of Development Studies (IDS)*, 2000, P3-P4; Hubert Schmitz (eds.), "Chain Governance and Upgrading: Taking Stock", in *Local Enterprises in the Global Economy*, Cheltenham: Edward Elgar, 2004, P.349–382

<sup>79</sup> Gary Gereffi, John Humphrey, Raphael Kaplinsky, and Timothy J. Sturgeon(eds). "Introduction: Globalisation, Value Chains and Development", *IDS Bulletin*, Vol.32, No.3, 2001

production systems. The second step is product upgrading, refers to moving into more sophisticated product lines (which can be defined in terms of increased unit values). The third step is intra-chain upgrading, which involves several types of upgrading opportunities that exist within a particular value chain. Firms can acquire new functions in the chain, such as moving from production to design or marketing (functional upgrading). Firms can also move backward or forward to different stages in a supply chain, such as moving from the production of finished goods to intermediate or raw materials (upgrading via vertical integration). In addition, firms can diversify their buyer-supplier links within a value chain; for instance, an apparel maker adding different kinds of lead firms such as an upscale retailer or brand-name client to expand or raise the price points of its orders (network upgrading). The last step is inter-chain upgrading, it occurs when firms apply the competence acquired in a particular function of a chain (e.g., competence in producing particular inputs, or in export marketing) to a new sector.

As a result, the last two steps in the IDS report have limited impact due to the lack of clear definitions. For example, in terms of the third step, Humphrey & Schmitz's description is more famous, i.e., the OEM (original equipment manufacturer), ODM (own-design manufacturer), and OBM (own-brand manufacturer).

### **3.1.2 China's Research on GVC**

Global Value Chain research has always been highly valued in China, and a large number of scholars have studied it<sup>80</sup>. There are two main reasons for this. First, it explains the reasons for China's rapid development; second, one of the main tasks faced by China currently is the upgrading of the global value chain.

#### **Part A: Explanation for China's rapid development**

Successful embedding into GVC is considered the most convincing explanation for China's rapid development. This requires: firstly, The GVC can bring benefits such as capital, technology and international market to China; secondly, China has the conditions and ability to participate in GVC.

The first requirement. The benefits of GVC for developing countries, such as the introduction of technology, the development of overseas markets and the promotion of domestic industrialization.

As mentioned in the UNIDO report, GVC is the best strategy for developing economies without

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<sup>80</sup> Zhang Hui, "Research on Global Value Chain Theory and Industrial Development in China", *China Industrial Economics*, 2004, No.5, P38-46; Liu Bin, Wei Qian, Lv Yue, Zhu Kunfu, "Service oriented manufacturing and value chain upgrading", *Economic Research Journal*, 2016, No.3, P151-162; Su Danni, Sheng Bin, Shao Chaodui, Chen Shuai, "The Interactive Effect of Global Value Chain, Localized Industrial Agglomeration, and Enterprise Productivity", *Economic Research Journal*, 2020, No.3, P100-115

strong technological capabilities, because it is a good means to enter global markets and gain access to new technology and knowhow<sup>81</sup>.

The second requirement. Conditions for successful embedding in GVC. (1) The continuous deepening of the international division of labor has lowered the barriers for developing countries to participate in globalization. Because each country only needs to undertake production in its own advantage field<sup>82</sup>. (2) Lower production costs are the main reason that developing countries can participate in global value chains. Just like China's advantages in resources, such as cheap labor and land, in the early days of participating in globalization. (3) The ability to efficiently centralize and allocate resources. This is very important because only in this way can developing countries quickly concentrate all resources to promote the introduction of foreign capital and thus embedding in the global value chain. To sum up, only in this way can the promotion of low-cost advantages to developing countries be truly realized. From this perspective, some scholars explain the reasons for the rapid development of many developing countries after World War II. And some scholars even try to redefine the country and government from the perspective of resource allocation capacity. For example, Michael Mann<sup>83</sup> mentioned the state's ability to allocate resources.

### **Part B: China's current challenges in GVC**

China has achieved rapid development by successfully embedding itself in GVC. But after decades of development, especially after the 2008 financial crisis, China faces different challenges. Hence, it is necessary to strengthen in-depth research on GVC, in order to better deal with these challenges.

#### **Challenge 1: The gradual weakening of cost and institutional advantages**

The low-cost advantage disappears. This was the main reason that many foreign enterprises invested and set up factories in China in the 1990s. As a result, a large number of labor-intensive enterprises with low added value appeared in the southeastern coastal areas of China, undertaking a large number of international productions outsourcing orders, thus turning China into a world factory. This marked that China has truly integrated into the production division system of the GVC, which are mainly dominated and controlled by super big international buyers or multinational companies<sup>84</sup>. But now, this low-cost advantage is gradually disappearing, especially with the

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<sup>81</sup> UNIDO, *Industrial Development Report 2002/2003: Competing through Innovation and Learning*, 2002, P1&3

<sup>82</sup> Xiao Wei, Liu Dexue, "Research on the international division of labor status of China's manufacturing industry based on the perspective of trade added value", *Journal of Commercial Economics*, 2017, No.10, P182-185

<sup>83</sup> Michael Mann, "The autonomous power of the state: its origins, mechanisms and results", *European Journal of Sociology*, 1984, No.2, P185-213

<sup>84</sup> Liu Zhibiao, "Economic globalization based on domestic demand: China's strategic choice to share the second

increase in the minimum wage standards<sup>85</sup>. This is a big shock to Chinese companies, as many of them are based on labor-intensive industries.

The disappearance of institutional advantages. As mentioned above, in the early days of China's participation in GVC, China's administrative system of efficient concentration and allocation of resources played a crucial role. However, after a period of time, this system advantage began to gradually disappear, because China has entered a new phase in GVC. To be specific, what China needs most now is a system that can promote innovation and industrial upgrading, rather than a system for resource centralization and allocation. Although scholars and officials have agreed on this goal, there is great controversy and confusion about how to achieve this goal. In short, there are now two opposing viewpoints: (1) some believe that China should ensure market freedom by reducing intervention in the market; (2) others argue that this will lead to chaos and disorder in the market, as China lacks a complete legal, political and economic system to ensure that all businesses can abide by and benefit from market rules. More importantly, facing increasingly fierce international competition and the disappearance of China's low-cost advantage, China needs to upgrade and transform its industries immediately. This makes it even more urgent for the government to play a leading role in encouraging the entire market to devote resources to the most promising products and industries. For example, in the fields of the digital economy, the Internet economy, and artificial intelligence development, which China attaches great importance to, discussions on whether to expand market freedom or strengthen market supervision are still going on fiercely.

### **Challenge 2: The expected goal of China's participation in global value chains has not been fully realized**

Although China has achieved rapid development after joining GVC, there are still many important expected goals that have not been achieved.

The goal of promoting the development of inland China through GVC. In the beginning, China's participation in the global value chain was mainly concentrated in the southeastern coastal areas such as Guangdong, Jiangsu, Zhejiang and other provinces. Based on this, China's expectation at the time was that the labor-intensive industries could be transferred to the inland areas of China, when the low-cost advantages disappeared, and the existing industries were upgraded in the

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wave of globalization dividends", *Journal of Nanjing University*, 2012, No.2, P51-59; Ding Xuedong, "China's transformation from 'world factory' to international production capacity cooperation-China's rise in the global production value chain", *Globalization*, 2015, No.7, P12-20

<sup>85</sup> Hu Qiongjie, Xia Hongsheng, "Analysis of Manufacturing Industry Upgrade Based on Global Value Chains", *Commercial Times*, 2011, No.17, P104-105

southeast coastal areas<sup>86</sup>. In this way, China's inland areas can continue to benefit from GVC with low-cost advantage. But in the end, this goal was not achieved, mainly for the following reasons: (1) Although the production and land cost in China's inland areas are very low, manufacturers still need to pay a large fee to transport goods to coastal ports for export. In this case, many enterprises will prioritize building factories in Southeast Asian countries with more convenient logistics instead of investing in the inland areas of China; (2) Labor-intensive enterprises in the southeastern coastal areas are at the low end of the GVC, with low added value and small profit gains. As a result, the enterprises in the southeast coast lack sufficient funds to upgrade industries and technologies. At the same time, these enterprises cannot transfer their industries to inland China, because the cost of industrial transfer may be higher than their current profits. This reflects that China is very passive in GVC, because the most critical part, the profit, is completely controlled by large international buyers and multinational corporations<sup>87</sup>.

The goal of increasing the added value of Chinese products. China's original expectation was to upgrade China's technology and equipment through GVC, thereby increasing the added value and market share of Chinese products eventually. But this goal was not achieved: (1) Although China has introduced many technologies and equipment, there is still a gap between China and developed countries in product design and high-end technology. As a result, the growth of Chinese products in domestic and foreign markets is relatively slow. (2) More importantly, China's dependence on export trade is still very high. The proportion of export trade in GDP from 2019 to 2021 is 17.4%, 17.69% and 19.00%. As a result, in order to continuously obtain international orders from European and American countries, Chinese enterprises sometimes need to import expensive equipment and technologies from these countries, because this is the only way to meet the requirements of international buyers and the market of developed countries.

The goal of improving industrial services. In addition to promoting industrialization, China also hopes to enhance its industrial services in the process of participating in GVC. Industrial development will inevitably lead to corresponding industrial service development, which was previously taken for granted. Surprisingly, however, the huge leap in Chinese production and manufacturing has not resulted in a rapid improvement in industrial services. In this regard, some scholars have observed that the deepening of the international division of labor has led to the separation of industrial production and industrial services<sup>88</sup>. In other words, China is only

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<sup>86</sup> Chen Jian, Gong Xiaoying, "Research on China's Industry-led Belt and Road Regional Value Chain Construction", *Research on financial and economic issues*, 2018, No.1, P43-49

<sup>87</sup> Liu Zhibiao, Zhang Jie, "From Integrating into Global Value Chain to Building National Value Chain: Strategic Thinking on China's Industrial Upgrading", *Academic Monthly*, 2009, Vol.41, No.9, P59-68

<sup>88</sup> Liu Zhibiao, "China's Industrial Development from the Perspective of Global Value Chain", *Nanjing Journal of*

responsible for production and manufacturing, while technical support and industrial services are provided remotely from the headquarters of large multinational corporations in developed countries. As a result, China's industrial services have not been developed, and China has become more dependent on advanced industrial services in developed countries.

### **Challenge 3: Immediate impact of the 2008 financial crisis**

The biggest challenge to China from the 2008 financial crisis is the impact on China's traditional development model (labor-intensive manufacturing and export-oriented)<sup>89</sup>. It is also a challenge to China's positioning and participation methods in GVC. It is reflected in two aspects: (1) The financial crisis has led to a sharp reduction in market demand and orders from developed countries<sup>90</sup>. This is a huge impact on export-oriented and labor-intensive Chinese companies, which do not have their own sales channels and international markets. This directly led to the closure of many processing and manufacturing enterprises<sup>91</sup>. (2) Developed countries such as the United States, Britain and France began to propose strategies to revitalize the manufacturing industry after the financial crisis<sup>92</sup>.

### **Part C: China's upgrading paths in GVC**

A major task faced by China is to upgrade the global value chain now, as China has entered a new stage in the global value chain. In this new stage, (1) China is facing the gradual disappearance of its original advantages; (2) China is facing dual pressures, profit control from top companies of the Global Value Chain and substitution risk from other developing countries; (3) Although China faces new pressures and challenges, it cannot break away from global value chain. Once this happens, China may lose opportunities in the next round of global development or technological revolution<sup>93</sup>.

To sum up, China needs to accelerate its upgrading in GVC, whether it is caused by the pressure from developed or developing countries or caused by China's loss of its own low-cost advantage, or caused by the series of chain reactions caused by the 2008 financial crisis.

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*Social Science*, 2014, No.8, P9-15

<sup>89</sup> Liu Zhibiao, "Reconstructing the National Value Chain: Reflections on Transforming the Development Mode of China's Manufacturing Industry", *Forum of World Economics & Politics*, 2011, No.4, P1-14

<sup>90</sup> Liu Zhibiao, Zhang Jie, "From Integrating into Global Value Chain to Building National Value Chain: Strategic Thinking on China's Industrial Upgrading", *Academic Monthly*, 2009, Vol.41, No.9, P59-68

<sup>91</sup> Hu Qiongjie, Xia Hongsheng, "Analysis of Manufacturing Industry Upgrade Based on Global Value Chains", *Commercial Times*, 2011, No.17, P104-105

<sup>92</sup> Ding Xuedong, "China's transformation from "world factory" to international production capacity cooperation-China's rise in the global production value chain", *Globalization*, 2015, No.7, P12-20

<sup>93</sup> Jiang Xiaojuan, "70 Years of Opening-up in China: Growth and Reform of Empowerment", *Management World*, 2019, No.12, P1-16

Therefore, this paper attempts to summarize the upgrading path China is currently trying by sorting out the government plans in the past ten years. There are two specific upgrading paths. (1) Path 1: To promote technological innovation, product upgrades and consumption patterns through the digital economy. (2) Path 2: To reconstruct and optimize all of China's overseas industrial chains and supply chains, so as to build regional value chains centered on China. In this way, China's position in the international division of labor can be strengthened and improved, so as to realize the upgrading in GVC.

In addition, it is necessary to point out that President Xi Jinping has played an important role in facilitating both upgrading paths. President Xi Jinping came to power in 2012. (1) China has paid increasing attention to the digital economy and the Internet economy since 2012. (2) President Xi Jinping proposed BRI in 2013, which has played a vital role in promoting China's reconstruction of overseas value chains as well as the establishment of regional value chains. In other words, the two upgrading paths can also be understood as two important strategies and plans from the Xi Jinping government.

### **3.2 Path 1 of China's Upgrading in GVC: Through Digital Economy**

Since the 18<sup>th</sup> National Congress of the Communist Party of China in 2012, the government and ruling Party have attached great importance to the digital economy, and finally developed it as a national strategy<sup>94</sup>. In the same year, the Chinese government issued the "12th Five-Year Plan for the Internet Economy (2011-2015)", which started the planning for the digital economy. The first Chinese internet conference, the 2014 World Internet Conference, was held in Zhejiang by the government. Since then, the government has stepped up its support.

This upgrade path is not closely related to China's overseas industrial parks. But as can be seen from below, implementing this path is quite difficult because it requires a lot of work and a long time of layout. In contrast, the second path that requires overseas industrial parks as support is relatively easier to implement.

#### **3.2.1 Digital Economy Strategy in China**

##### **Part A: Concept**

The term Digital Economy first appeared in the early 1990s. For example, New York University's Center for Digital Economy Research published many papers at that time. American scholar Don

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<sup>94</sup> Xi Jinping, "Continue to strengthen and optimize digital economy", *Qiushi*, 2022.01.15

Tapscott published his book in 1996, *The Digital Economy: Promise and Peril in the Age of Networked Intelligence*, which had great influence. This book has drawn a lot of attention by describing how the Internet will change the way the world works and generate new economic forms and activities. Thomas Mesenbourg mentioned three aspects of the digital economy<sup>95</sup>: (1) E-business infrastructure (hardware, software, telecom, networks, human capital, etc.); (2) E-business (how business is conducted, any process that an organization conducts over computer-mediated networks); (2) E-commerce (transfer of goods, for example when a book is sold online).

In recent years, China has tried to come up with its own understanding and definition of the digital economy. In 2016, China hosted the G20 Summit in Hangzhou<sup>96</sup>. China took "Digital Economy" as the theme of the summit for the first time, in order to promote global growth through the digital economy. In 2016, the world encountered a very intense wave of de-globalization. Hence, China tried to use the digital economy as an effective measure to deal with it. This is the first time that China has proposed a definition of the digital economy in a formal international forum. Finally, the G20 summit issued the *G20 Digital Economy Development and Cooperation Initiative*, which is the first digital economy policy document signed by leaders of many countries. In this document, the digital economy was defined as "a broad range of economic activities that include using digitized information and knowledge as the key factor of production, modern information networks as an important activity space, and the effective use of information and communication technology as an important driver of productivity growth and economic structural optimization. Internet, cloud computing, big data, Internet of Things, fintech and other new digital technologies are used to collect, store, analyze, and share information digitally and transform social interactions. Digitized, networked and intelligent ICTs enable modern economic activities to be more flexible, agile and smart.

### **Part B: Development of the digital economy strategy**

In the beginning, China did not have a deep understanding of the digital economy, but only superficially understood it as the impact of the Internet on business behavior, which will increase economic efficiency but cannot bring fundamentally change to the economy<sup>97</sup>. This is an understanding from the American scholar Beomsoo Kim, who in 2002 defined the digital economy as a special economic form whose essence is that goods and services are traded in the form of

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<sup>95</sup> Thomas L. Mesenbourg, "Measuring the digital economy", *US Bureau of the Census*, 2001, <https://www.census.gov/content/dam/Census/library/working-papers/2001/econ/umdigital.pdf>

<sup>96</sup> China Daily, "Hangzhou Summit adopts G20 digital economy development and cooperation initiative", 2016.09.28

<sup>97</sup> Mei Hong, "Big Data and Digital Economy", *Qiushi*, 2022.01.16

information<sup>98</sup>.

But China gradually realizes that the Internet and the digital economy may really be able to bring about fundamental changes, and may even become the real key to the next Industrial Revolution. This change happened because China has experienced itself the great changes brought by the digital economy, especially the great achievements in e-commerce. According to the National Bureau of Statistics, by the end of 2018, the number of Chinese netizens increased from 620,000 in 1997 to 830 million in 2018, and the number of online shopping users reached 610 million. The most obvious growth was in the usage of mobile Internet. Until 2018, the number of 4G users has reached 1.17 billion, the data flow of mobile Internet has reached 71.1 billion GB in total, and the daily Internet time on the mobile terminal is 7 billion hours<sup>99</sup>.

Specifically, there are three stages in the formation of the digital economy strategy: The first stage is from 2012-2016. After realizing that information technology can bring fundamental changes, the 18<sup>th</sup> National Congress of the Communist Party of China in 2012 put forward the emphasis on the digital economy. In May 2012, according to China's 12<sup>th</sup> Five Year Plan (2011-2015), the Ministry of Industry and Information Technology of China issued the Five-Year Plan for the Development of the Internet Industry<sup>100</sup>, which provided more specific guidance and planning for the digital economy. After that, China tried various methods and types of support, such as the organization of first China's World Internet Conference in 2014. It should be pointed out that this stage is mainly focused on the Internet economy, such as online shopping. The second stage is from 2016-2020. With previous attempts, China realized that it is not enough to develop the Internet economy of online shopping, but needs to build a more comprehensive digital economy. As a result, the concept and planning of the digital economy began to emerge. At the G20 summit in 2016, China put forward a complete understanding of the digital economy. On this basis, China has formulated the 13<sup>th</sup> Five-Year Plan (2016-2020), focusing on the rapid development of the digital economy. In addition, China has issued a series of policy documents on big data, cloud computing and informatization, such as the *Outline of the National Informatization Development Strategy*, and the *Guiding Opinions on Actively Promoting the "Internet+" Action*.

The third phase is from 2021-present. The planning of the digital economy becomes more specific and targeted. In the 14<sup>th</sup> Five-Year Plan (2021-2025), a more specific and detailed development

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<sup>98</sup> Beomsoo Kim, Anitesh Barua, Andrew B. Whinston, "Virtual field experiments for a digital economy: a new research methodology for exploring an information economy", *Decision Support Systems*, 2002, No.3, P.215-231

<sup>99</sup> Chen Weiwei, "The number of Chinese Internet users reached 830 million at the end of 2018", *Xinhua News*, 2019.08.13

<sup>100</sup> Ministry of Industry and Information Technology of China, *Five-Year Plan for the Development of the Internet Industry*, 2012.05.04

direction is formulated: “To take data as the key factor. To take the deep integration of digital technology and the real economy as the main line. To strengthen digital Infrastructure construction, improve governance system of the digital economy, to promote digital industrialization and industrial digitization”<sup>101</sup>.

### **3.2.2 Digital Economy and Upgrading in GVC**

The digital economy plays a crucial role in the upgrading in Global Value Chain. Specifically, the digital economy can help China upgrade in the following three aspects: participate in the international design of products; completely change the organization of production; improve production efficiency and stimulate the consumer market.

#### **Part A: Promoting China’s participation in the international design of products**

To understand the international division of labor from a new perspective. The 2008 financial crisis and the de-globalization in 2016 made some people lose confidence in globalization. But some scholars believe that this cannot prove that globalization is wrong, which only just shows that the traditional international division of labor system has fallen behind, leading to the stagnation of globalization. In their view, the biggest change required by the international division of labor is to expand the scope of globalization, from traditional globalized production to the globalization of R&D, production, and services.

In other words, this can be understood as a product entering globalization earlier in its life cycle than before. Scholars such as Jiang Xiaojuan believe that the product has already started its globalization in the design stage at present. The reason is that the rapid progress of communication technologies such as 5G has made it possible for internationalization and Synchronization of Product Design. All designers from various countries can design, discuss, modify, and get feedback around products online at the same time, so as to design the most satisfying product as soon as possible<sup>102</sup>. The biggest feature of this kind of online design is cost reduction and efficiency improvement. With digital technology, (1) project leaders can learn about the actual progress of the design and assign the task to the most suitable designers; (2) there will be less delay and lag in the large data transfer. This means that designers around the world can not only conduct online video conference, but also can simultaneously design and modify with the same software.

For China, the digital economy provides enterprises and designers with a great chance to

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<sup>101</sup> State Council, *The digital economy development plan of the 14th Five-Year Plan*, 2021.12.12, Document No. (2021) 29

<sup>102</sup> Jiang Xiaojuan, “Promote the development of the digital economy to stabilize economic growth”, *Outlook Weekly*, 2022.03.01

participate in global product design. The widespread use of the digital economy gives them two advantages. (1) Compared with their counterparts, Chinese enterprises and designers used the digital economy platform for product design earlier, so they have accumulated more experience in online design. (2) In the past few years, China's development of the Internet economy and artificial intelligence has produced massive big data and corresponding algorithms of consumption. Therefore, Chinese enterprises with these big data and algorithms will be welcomed for international product design.

### **Part B: Promoting revolutionary breakthroughs in production organization**

China is trying to achieve a revolutionary breakthrough in production organization through the digital platforms. Specifically, it aims to replace leading enterprises and super-large enterprises in the function of production organizing within the industry. Many Chinese scholars are optimistic because they have seen the significant role and great potential that digital platforms have shown over the past few years. Jiang Xiaojuan has conducted comprehensive research and discoveries in this area<sup>103</sup>.

Officially, this digital platform is known as the Industrial Internet in China. Its core feature is to organize production centered on products, rather than centered on leading enterprises. Jiang Xiaojuan takes an example in an industrial Internet in Ningbo, China, the production process of kettles is broken down into 17 steps, and then allocated to idle machines in 15 factories for production at the same time. This has no negative effect on the normal production activities of these enterprises, and also makes full use of these idle resources for more benefits. To sum up, the efficient use of production resources and equipment in the industry can be realized by this product-oriented organization of the industrial internet. To a certain extent, this is digital industrial agglomeration, but the carrier of the agglomeration is no longer a leading enterprise, but an industrial Internet platform.

The advantage of the Industrial Internet is the intelligent management of the industrial chain through big data and algorithms. In other words, it provides a perfect match for all participants in the industry chain at any time, such as customers, manufacturers, suppliers, and R&D members. There are three detailed advantages: (1) For the industrial chain. When an industrial chain breaks due to emergencies, the Industrial Internet can quickly reconstruct the industrial chain. For example, during the Covid-19 epidemic, many enterprises quickly joined the new industrial chain

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<sup>103</sup> Jiang Xiaojuan, "Interview with Jiang Xiaojuan from Tsinghua University", *E-Finance of People's Daily Online*, 2020.10.09; Jiang Xiaojuan, "Broad space for development of the digital economy", *Xinhua New*, 2021.01.08

and resumed production through a digital service platform called in China. (2) For the enterprises. They can take the initiative to exit and join the new industrial chains according to their own needs, so as to maximize profits. This will not cause damage to the entire industry and other enterprises, because the industry chains, which the enterprises have withdrawn from, can find new replacements through the industrial Internet. (3) For the entire industry. With the Industrial Internet, the whole industry can quickly adjust its industrial layout and mainstream products according to the latest market needs and changes. In other words, the industrial Internet provides the industrial chain with the advantage of flexibility, which can be broken down and reorganized repeatedly without affecting the normal operation of the industrial chain. In this way, it can be achieved that the organization of production is centered on the market and products.

This is very meaningful for China. (1) The precise allocation of production resources by the Industrial Internet can help China better deal with the problems of high production cost and low-added value. In this way, China can continue to exert its advantages in manufacturing with efficient and large-scale production, thereby further consolidating China's position in GVC. Even if it cannot directly promote the upgrading in GVC, it can at least buy more time for Chinese enterprises to upgrade and transform, so as to avoid the crisis of being replaced by Southeast Asian countries in the short term. According to Jiang Xiaojuan's research, Chinese enterprises really have the serious problem of idle production resources and equipment, mostly 1/3 or 1/4 number of the equipment will be free at the same time in a factory. (2) The Industrial Internet will help China formulate an industrial plan that is more suitable for the actual industrial structure. China can continue to make better use of the current industrial layout, which is characterized by a large number of small and medium-sized enterprises. To sum up, on the basis of the Industrial Internet, a new production method will be formed, characterized by personalized customization, small batches and flexible production.

### **3.2.3 Implementation of Upgrading Path 1**

From the above, the digital economy can bring a bright future to China. But it will need lot of time, manpower, and material resources. Moreover, China also has to bear the huge risk if digital technology cannot achieve revolutionary breakthroughs.

The following shows three prerequisites that China needs to meet to achieve a digital economy: the improvement of infrastructure, the application of digital technology in industrial development, and the governance and regulation of digital technology. It can be seen here that how difficult it is to implement path 1 of China's upgrading in GVC, because even the Chinese government cannot

provide a clear timetable for achieving these goals. Instead, it can only clarify China's work direction in these three areas.

### **Part A: Infrastructure**

5G infrastructure plays a key role in the digital economy, because the widespread use of 5G in multiple scenarios is the most important foundation of the digital economy. And it's also a race for time. China needs to become one of the first countries in the world to widely use 5G, in order to occupy the leading position in the international competition of the digital economy. "China's 5G base stations and data centers are the fastest growing in the world. By November 2021, 1.396 million 5G base stations have been built, and more than 70% of the world is in China, covering all cities above prefecture-level cities, and 5G coverage. The number of terminals is close to 500 million, accounting for nearly 80% of the global proportion".<sup>104</sup> Digital infrastructure also includes the digital upgrade of the city's existing infrastructure. In other words, the existing urban infrastructure must have access to 5G, so as to ensure the application of 5G in the entire city, especially in the fields of transportation, logistics, energy, and environmental protection.

In the narrative of Chinese President Xi Jinping, it can be seen that China's ultimate goal is to build an intelligent, comprehensive and digital information infrastructure. Specifically, digital infrastructure needs to be built around the three most important pillars, the 5G network, the national integrated data center system and the national Industrial Internet<sup>105</sup>.

### **Part B: Promoting the integration of digital economy and industrial development**

In China, an important consensus has been reached that the digital economy should focus on promoting industrial development. In government planning, official documents and academic research, the digital economy for industrial promotion is divided into two parts: industrial digitization and digital industrialization.

Industry digitization. Simply put, it is the digital upgrade of traditional industries. According to the definition of the National Bureau of Statistics of China, industrial digitization refers to "the application of digital technology and data resources to increase the output and improve the efficiency of traditional industries, which is the integration of digital technology and the real economy"<sup>106</sup>. It aims to carry out all-round and full-chain improvement in traditional industries

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<sup>104</sup> Jiang Xiaojuan, "Promote the development of the digital economy to stabilize economic growth", *Outlook Weekly*, 2022.03.01

<sup>105</sup> Xi Jinping, "Continue to strengthen and optimize digital economy", *Qiushi*, 2022.01.15

<sup>106</sup> National Bureau of Statistics, *Statistical classification of digital economy and its core industries*, 2021.05.27, Document No. (2021) 33

such as manufacturing, service and agriculture, so as to achieve the expansion of quantity and the improvement of efficiency. There are two key points here: (1) Increase the application of digital technology. It requires promoting the digitization, networking and industrialization of the industry through technologies such as big data, artificial intelligence and the new generation of communication<sup>107</sup>. (2) Promote the upgrading and transformation of the entire industrial chain, rather than the upgrading of a single production section. Hence, digitalization is applicable to all production factors and participants in the industrial chain, so as to increase productive force eventually<sup>108</sup>. To be specific, it refers to the digital and intelligent upgrading of R&D design, production process, production management and sales services.

Digital industrialization. Simply put, it refers to developing and designing new products and services through digital technology. Shi Jianxun defines digital industrialization as the industrialization, commercialization and marketization of data elements<sup>109</sup>. According to the definition of the National Bureau of Statistics of China, Digital industrialization refers to “all kinds of economic activities that are completely dependent on digital technology and data elements”. And its main scope is four major categories: digital manufacturing, digital service, digital technology application and digital data-driven industry<sup>110</sup>. The specific industries mainly include computer communications, electronic equipment manufacturing, Internet services, software and information technology services. In addition, China's 14th Five-Year Plan has set a goal for Digital industrialization: to increase its proportion of GDP from 7.8% in 2020 to 10% of GDP in 2025<sup>111</sup>. This means that digital industrialization needs to increase 2.3 times faster than GDP<sup>112</sup>.

### **Part C: Governance and regulation of digital technology**

The governance of data is the next important task of the Chinese government, because data is the key factor in the development of digital technology. In this regard, the government should not only promote the comprehensive application of data, but also strengthen data supervision to protect citizens' data from being leaked.

The biggest advantage is that in the process of the rapid development of the Internet in the past

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<sup>107</sup> Shi Jianxun, “Industrial Digitalization Promotes World Economic Transformation”, *People's Daily Online*, 2022.01.19

<sup>108</sup> Mei Hong, “Big Data and Digital Economy”, *Qiushi*, 2022.01.16

<sup>109</sup> Shi Jianxun, “Accelerate the promotion of digital industrialization and industrial digitization”, *People's Daily*, 2021.10.15

<sup>110</sup> National Bureau of Statistics, *Statistical classification of digital economy and its core industries*, 2021.05.27, Document No. (2021) 33

<sup>111</sup> State Council, *The digital economy development plan of the 14th Five-Year Plan*, 2021.12.12, Document No. (2021) 29

<sup>112</sup> Jiang Xiaojuan, “Optimistic expectations of economic development brought by the digital economy”, 2022.01.18, <https://mp.weixin.qq.com/s/JYG0cBar88y6msxhYxaDKw>. Last visit: 2025.01.16

few years, massive data has been generated in China. These data will play a vital role in China's future economic development, as they are decisive factors in realizing the digitization and intelligence of the economy and society<sup>113</sup>. In other words, China has become one of the top countries that generate the largest amount of data and have the most abundant types of data<sup>114</sup>. Just like the conclusion mentioned in a report released by China Internet Network Information Center (CNNIC) in June 2021, "with 1 billion 11 million netizens, China has become the world's largest and most vibrant digital society"<sup>115</sup>.

Comprehensive data applications. A complete data market needs to be established, in order to accelerate the opening, sharing and circulation of data. There are two ways that the government can help the establishment of a data market. (1) The government can disclose some official data, so that more institutions and enterprises can make better use of data in the market<sup>116</sup>. (2) The government can encourage and guide the establishment of a data trading system, promoting the market flow of legal data. Specifically, the government needs to help the market to establish a series of orders and standards of data trading, such as asset evaluation of data, registration and settlement, dispute arbitration, and the crackdown on illegal data transactions<sup>117</sup>.

The supervision of data. In recent years, the Chinese government has paid more and more attention to the supervision of data, because the abuse of digital technology will violate public interests and social values and even lead to discriminatory behaviors<sup>118</sup>. Furthermore, the Chinese government has begun to realize that strengthening data supervision and protecting user privacy is the only way to ensure a sound and sustainable digital economy consumer market. From a long-term perspective, improving the supervision system of data collection can not only protect the privacy and security of users, but also ensure the quality of data, so as to avoid cases like the withdrawal of a product from the market due to the use of illegal data. In addition, the unified specification of data collection can break down technical and protocol barriers, promote circulation, and form a complete data chain<sup>119</sup>.

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<sup>113</sup> State Council, *The digital economy development plan of the 14th Five-Year Plan*, 2021.12.12, Document No. (2021) 29

<sup>114</sup> National Development and Reform Commission of China, *Development Plan for the Big Data Industry (2016-2020)*, 2017.06.22, Document No. (2016) 412

<sup>115</sup> Zhang Baoshu, "The scale of Chinese netizens exceeds 1 billion", *People's Daily Overseas Edition*, 2021.08.28

<sup>116</sup> Jiang Xiaojuan, "The development trend and governance focus of digital economy during the 14th Five-Year Plan period", *Guangming Daily*, 2020.09.21

<sup>117</sup> State Council, *The digital economy development plan of the 14th Five-Year Plan*, 2021.12.12, Document No. (2021) 29

<sup>118</sup> Jiang Xiaojuan, "The development trend and governance focus of digital economy during the 14th Five-Year Plan period", *Guangming Daily*, 2020.09.21

<sup>119</sup> State Council, *The digital economy development plan of the 14th Five-Year Plan*, 2021.12.12, Document No. (2021) 29

### **3.3 Path 2 of China's Upgrading in GVC: Through Regional Value Chain**

Contrary to Path 1, Path 2 is characterized by relatively fewer benefits but more pragmatic and easier to achieve. Path 1 aims to create new advantages, while Path 2 aims to further develop existing advantages. The goal of Path 2 is to rely on China's existing supply chain to shape one or several regional value chains centered around China. The more important China is in regional value chains, the higher position it can occupy in GVC.

#### **3.3.1 Changing the Way of Participation in GVC**

With cheap production costs, China participated in GVC and achieved rapid development. But this is an unsustainable way of participation, when the drawbacks of this way are gradually becoming apparent today, such as the increase in labor costs and the decreasing in profit. Hence, China needs to change the way of participating in GVC.

##### **Part A: Reflections on previous participation**

In fact, most developing countries have adopted the same way of participating in GVC, which is based on the low cost of production. As Ma Yunjun summed up, "Due to the lack of capital and core technology, developing countries can make full use of their labor advantages, resource advantages and market advantages to undertaking industrial transfer from developed countries. Specifically, developing countries will be incorporated into the international production and sales systems of developed countries, with methods such as processing trade, the establishment of joint ventures, as well as mergers and acquisitions by multinational corporations. As a result, these countries finally entered the international market and embedded in the global value chains"<sup>120</sup>. It is an obvious fact that this approach plays a very important and positive role in the early stages of a country's participation in globalization and GVC. These countries can make full use of foreign capital, technology and sales network, not only to achieve rapid development, but also to accumulate technology and improve innovation capabilities.

However, the side effects of the above approach will gradually be exposed over time, just like the challenges faced by China now. (1) China has lost the advantage of low costs of production. Participation with low production costs is unsustainable, because someday this advantage will disappear. If this type of participation is not adjusted in time, the original participants will be replaced by other countries with cheaper production costs. (2) China has decreasing benefits in

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<sup>120</sup> Ma Yunjun, "Research on industrial transfer, global value chain and industrial upgrading", *Journal of Technical Economics and Management*, 2010, No.4, P139-143

GVC. Scholars have gradually discovered that in the process of participating in GVC, China has only achieved improvements in manufacturing processes, but has not achieved major breakthroughs in product added value, product research and development, technology, and industrial services. As Hu Zhaoling and Zhang Yonghua concluded, China has only become a manufacturing powerhouse with a competitive advantage in low-tech manufacturing, but still lacks competitiveness in mid-to-high and high-tech manufacturing industries.<sup>121</sup> Liu Zhibiao directly pointed out that in the participation based on Original Equipment Manufacturer, it is difficult for China to develop the independent international products brands and innovation technology.<sup>122</sup>

As a result, more scholars realized that China needs to change the way of participation as soon as possible. Liu Zhibiao mentioned, the price of China's rapid development in GVC is that the longer China is in GVC, the more it will rely on leading large multinationals in GVC. Therefore, China must change the way of participation to improve its initiative and competitiveness in GVC.<sup>123</sup>

### **Part B: New way of participating**

Although the specific content of the new participation method is still controversial, the following two points have reached wide agreements. Firstly, China needs a new way of participation to overcome the current crisis, so as to ensure that China will not be replaced or decline in GVC. The current crisis is caused by three reasons. (1) China's low-cost advantage is gradually disappearing irreversibly, leading to an increasingly unconvincing identity of China further as a manufacturing power. The problem of the disappearance of China's traditional advantages is also very important and urgent for China, because it concerns whether China can solve the middle-income trap. (2) Since the financial crisis, developed countries hope to revitalize their own manufacturing industry with their advanced technology and equipment. This poses a huge challenge to China in high-end manufacturing. (3) Compared with China, the low-cost advantage of Southeast Asian countries has become more and more obvious, leading many multinational companies to gradually withdraw from China and transfer to countries with lower labor costs, such as Vietnam<sup>124</sup>. Secondly, China needs new ways of participation to expand its existing comparative advantages, thereby enhancing China's position and benefits in GVC. While the cost advantage is gradually lost, China also has

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<sup>121</sup> Hu Zhaoling, Zhang Yonghua, "Research on the status of China's manufacturing industry in international division of labor-Based on the perspective of value-added trade", *NanKai Journal*, 2015, No.3, P149-160

<sup>122</sup> Liu Zhibiao, "China's Second Wave of Economic Globalization", *Academic Monthly*, 2013, No.1, P88-96

<sup>123</sup> Liu Zhibiao, "Reconstructing the National Value Chain: Reflections on Transforming the Development Mode of China's Manufacturing Industry", *Forum of World Economics & Politics*, 2011, No.4, P1-14; Du Juan, "Research on the Development of Overseas Economic and Trade Cooperation Zones under BRI", *Accounting learning*, 2018, No.9

<sup>124</sup> Meng Qi, "The Global Value Chain Construction of Manufacturing Based on 'One Belt and One Road'", *Finance & Economics*, 2016, No.2, P72-81

gained some new comparative advantages, such as experience and technology in the field of manufacturing and international logistics, such as the advantages in cost-effective equipment manufacturing. In addition, more importantly, China currently has relatively abundant funds, which can provide sufficient financial support for the transformation of participation in the global value chain. For example, China's GDP in 2019 approached 100 trillion yuan.

On this basis, the direction of the new way of participating in GVC is gradually clear: turn China to be a transit station in GVC, so that it can play an irreplaceable platform role in the international division of labor, so as to promote the upgrading in GVC. This means that China should no longer identify itself as a manufacturing powerhouse, but as a transit station for the assembly and logistics of global manufacturing.

In other words, this can be understood as a change in the form of participation. So far, China has joined GVC as a single player. China is trying to form a value chain with other countries first and then participate in GVC with the whole value chain as a united player. (1) Construction of value chain. China hopes to find a basis for cooperation with other developing countries, so as to establish a regional value chain. With the close connection within the value chain, China and these developing countries can support and help each other, thus ensuring everyone's position in GVC. (2) Inclusiveness of value chain. Although China is the initiator of the construction of this value chain, this does not prevent other countries in the value chain from participating in GVC. They can participate in GVC in other ways at the same time, either as individual participants or forming another value chain with other countries.

In conclusion, the key to success is whether other countries have enough willingness and motivation to participate in China's value chain. A supporting view is that these countries will participate because it reduces the costs and risks of participating in GVC. According to China's own experience, cheap production resources are not enough to help developing countries successfully enter the system of the international division of labor. In the 1970s and 1980s, China lowered the threshold for participating in GVC by joining the value chain built by the Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan). As a result, China participated in the global value chain and achieved rapid development, even if China was not eligible to participate in globalization at that time due to the disadvantages of equipment, infrastructure, labor quality and institutions.

### **3.3.2 Regional Value Chain and Upgrading in GVC**

There are two questions that need to be answered: 1. Can the regional value chain be successfully constructed? How to build? 2. When the value chain is built, can China really upgrade in GVC?

## **Part A: Construction of regional value chain**

The construction of China's regional value chain needs to meet two requirements. First, China needs to have the strength to build a value chain. Second, developing countries are willing to participate in this value chain.

**Requirement 1:** The strength of Chinese enterprises to build a value chain needs both willingness and funds & experience. (1) The willingness to invest overseas. Chinese manufacturing enterprises urgently need to invest in developing countries for the purpose of reducing costs. Meanwhile, with the decline in China's low-cost advantage, the return on investment in the manufacturing industry has been reduced. As a result, the capitals investing in China's manufacturing industry previously began to invest manufacturing industry overseas, seeking higher returns. In fact, this is also conducive to the Chinese capital to participate more deeply in globalization and benefit from it, thus contributing to China's transformation into a capital-intensive economic structure. (2) The funds and experience in building and operating a value chain. Based on the gains from its previous participation in GVC, China has favorable conditions to establish the regional value chain. In the rapid development of globalization, a large number of enterprises with rich capital and overseas investment willingness have emerged in China. In the process of participating in GVC, China has accumulated considerable experience in the construction and operation of the value chain. In the provinces of Guangdong, Jiangsu and Zhejiang, where foreign investments are concentrated, many Chinese enterprises have learned how to act and operate within GVC from large foreign multinational companies.

**Requirement 2:** The willingness of developing countries to participate in these regional value chain. China tries to increase the willingness of developing countries to participate in the following two aspects. (1) The first is to seek different positioning and goals from other developing countries. To a certain extent, China and other developing countries are currently competing in GVC. To be specific, China faces the risk of being replaced by other developing countries, especially pressure from Southeast Asian countries. They have more advantages: (a) The advantages in Production cost. While China's low-cost advantage gradually declines, Southeast Asian countries have more and more obvious advantages in cheap cost of land, manpower and so on. (b) The advantages in international trade. In recent years, there have been increasing foreign trade agreements between developed countries and Southeast Asian countries, which are more conducive to commodity exports. On the contrary, the previous trade war between China and the United States has shown that exports of Chinese products have faced more challenges. In this regard, many multinational companies choose to invest in Southeast Asian countries instead of China. If China continues to

define itself as a producer of low-end manufacturing, China has to face competition with countries like Vietnam and India, which has lower cost production factors.<sup>125</sup> But, when China abandons its current position of being labor-intensive, it will naturally have no interest conflict with these developing countries. It can not only resolve the crisis, but also provide a basis for cooperation between China and these developing countries. (2) The second is to identify and highlight the comparative advantages of China's value chain. The biggest attraction of the regional value chain is that it can lower the other developing countries' barriers to entering the GVC. To be specific, the low-cost of labor and land cannot allow these countries to directly join the advanced international production systems from Europe and the United States, because these systems have extremely high requirements for technology, production scale, and labor quality. But the regional value chain does not have these strict requirements, and it can enable developing countries to better utilize their low-cost advantages to participate in the international division of labor. At present, the biggest attraction of China's value chain is that it can promote the rapid development of developing countries in manufacturing. (a) China has rich experience in production, operation and management of the manufacturing industry. (b) China's production facilities and production processes are more suitable for the current industrial structure of other developing countries. In order to promote the manufacturing industry, China has adjusted the advanced equipment and production processes imported from developed countries, so that it can better and more conveniently use the advantages of low-cost production factors. These less advanced and easier-to-operate production facilities will be more attraction to other developing countries, which share the similar experiences and advantages with China. Taking China as an example, in the 1980s, it was the introduction of labor-intensive equipment and technologies from the Four Asian Tigers, instead of from developed countries, that enabled China to rapidly promote industrialization and participate in GVC in a short period of time<sup>126</sup>.

### **Part B: Regional value chain and upgrading in GVC**

China tries to position itself as a transit station in the regional value chain, in order to play the role of a platform in GVC. The key point is whether this role of the platform can promote China's upgrading in GVC.

In short, the regional value chain can contribute to China's global value chain upgrading in two ways. (1) Reduce production costs through the platform, so as to ensure or improve China's

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<sup>125</sup> Liu Zhibiao, "China's Industrial Development from the Perspective of Global Value Chain", *Nanjing Journal of Social Science*, 2014, No.8, P9-15

<sup>126</sup> Hu Zhaoling, Zhang Yonghua, "Research on the status of China's manufacturing industry in international division of labor-Based on the perspective of value-added trade", *Nankai Journal*, 2015, No.3, P149-160

position in the global manufacturing industry and GVC. (2) To cope with the gradual fragmentation of the international division of labor through the platform, thus making China an important platform in the globalization of production.

### **Costs reduction**

As mentioned in upgrade path 1, China still has a great advantage in manufacturing. But the only constraint is China's increasing production costs. Hence, as long as the problem of increasing production costs can be solved, China can continue to exert its advantages in the global manufacturing industry and GVC. The Industrial Internet is one of the solutions proposed by China. The regional value chain is another solution. Of course, the two solutions are different.

Specifically, successful overseas investments contribute to the construction of regional value chain, which in turn help Chinese enterprises further reduce production and logistics costs. (1) Regional value chains can facilitate a more unified and efficient allocation of production factors, thereby reducing production costs for enterprises across the entire region. (2) The regional value chain can improve logistics efficiency and reduce logistics costs by integrating all of China's existing overseas logistics chains together. In addition, the optimization of logistics will help Chinese products to develop overseas markets in other developing countries with preferential product prices.

### **A solution to the fragmentation of global production**

The trend of fragmentation of the international division of labor becomes more obvious. (1) A new dilemma emerges for global products. On the one hand, the technology in production and R&D has become more advanced. On the other hand, producers need to carry out more production steps in a shorter time. As a result, the system of the international division of labor requires more participants, each of whom only focuses on their own areas of expertise and provides the best components of the whole product. It increases fragmentation. (2) Many enterprises now transfer from China to lower-cost countries like Southeast Asia, leading to a more fragmented system of the international division of labor.

With the regional value chain, China can better organize these fragmented divisions of labor and play a more important role in intermediate products trade<sup>127</sup>, so as to better organize the production and transportation of international products. In other words, this can be understood as a change in China's identity: from the identity of manufacturing power to identity of

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<sup>127</sup> Robert Koopman, Wang Zhi, Wei Shangjin, "Tracing Value-added and Double Counting in Gross Exports", *American Economic Review*, 2014, No.2, 459–94

manufacturing power, service provider and organizer in globalization. When China's identity as a service provider and organizer become more important and irreplaceable, China will upgrade in GVC eventually. In fact, this also reflects that globalization has undergone some fundamental changes. As Cui Weijie concluded, services will become more important in GVC, which is the inevitable result of the deep integration of manufacturing and service industries<sup>128</sup>.

### **3.3.3 Regional Value Chain and BRI**

BRI has faced many controversies since it was proposed. An important reason is that this is the first time that China has taken the initiative to propose such an ambitious regional and international plan, so as to provide international public goods<sup>129</sup>. As Wang Yiwei mentioned, BRI can be simply understood: "It seems that China does not want to take free rides on developed countries anymore, but provides free rides for the countries in Asia, Africa and Europe. In other words, it's a shift for China from being integrated into globalization to shaping globalization"<sup>130</sup>. But this also means that the definition and realization of the BRI will experience a long and difficult process, especially the controversy and confusion over the definition at the beginning. Now, ten years after it was proposed, the content and goals have become clearer. One of the key points is to promote the construction of China's regional value chain, thereby accelerating the upgrading in GVC.

#### **Part A: Proposition of BRI**

The "Belt" of BRI refers to the Silk Road Economic Belt, which was proposed by Chinese President Xi Jinping in his speech at Nazarbayev University in Kazakhstan in September 2013. It aims to strengthen the close cooperation between China and the Silk Road countries. Chinese scholars generally agree that the concept of the "Silk Road" was first proposed by German geographer Ferdinand von Richthofen in 1877, which refers to trade and cultural exchanges between Europe and Asia (East and West). In addition to China, many international organizations and countries have proposed similar concepts. UNDP launched the Silk Road Initiative (SRI) in 2008 with an estimated investment of 43 billion US dollars, which aims to improve the transportation infrastructure conditions on the ancient Silk Road. Later, the United States proposed the "New Silk Road Initiative" in 2011, which aims to build a US-led geo-network linking Central Asia and South Asia, with Afghanistan as the connecting point. Within this geographic network, the United States hopes to

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<sup>128</sup> Sun Yang, Li Qiaochu, "Interview with Vice president of the Research Institute of the Ministry of Commerce Cui Weijie", *People's Daily Online*, 2021.11.30

<sup>129</sup> Yang Jiechi, "Preparations for the Belt and Road Forum for International Cooperation", *People's Daily*, 2017.02.03

<sup>130</sup> Wang Yiwei, *Opportunities and Challenges of "One Belt One Road"*, Beijing: People's Press, 2015, P6

not only promote economic development, but also improve the governance level of countries in the region by eliminating corruption and other means<sup>131</sup>.

The "Road" of BRI refers to 21st Century Maritime Silk Road which was proposed by Chinese President Xi Jinping at the Asia-Pacific Economic Cooperation (APEC) informal leaders' meeting in October 2013. It aims to strengthen China's cooperation with countries in Southeast Asia and East Africa. In addition, at that time, Xi Jinping specifically mentioned the importance of cooperation between China and ASEAN. Chinese scholars generally agree that the concept of the "Maritime Silk Road" was first proposed by the French sinologist Édouard Chavannes in 1913, which refers to China's trade routes around Southeast Asia, generally from China to India or to East Africa.

### **Part B: Overseas infrastructure projects in the initial stage**

After the BRI was proposed, many officials and scholars focused their attention on overseas infrastructure, and they even believed that this was the core and main task of BRI. There are three reasons for their optimism. (1) This is the best solution to China's excess production capacity<sup>132</sup>, which is the problem that China needs to solve urgently. This is the result of excessive investment and production caused by the long-term high-speed development under the imperfect market mechanism. The excess production is mainly concentrated in industries such as steel, coal, cement, electrolytic aluminum, and flat glass<sup>133</sup>. (2) The Chinese infrastructure projects will be welcomed by other developing countries, because they have a huge demand for infrastructure. In recent years, many developing countries have formed plans to promote basic infrastructures, because they realize that the lack of infrastructure is a great obstacle to their economic development, industrialization and integration into globalization<sup>134</sup>. (3) China has rich experience in infrastructure construction and thus can provide some infrastructure projects with good quality and low prices, such as high-speed rail projects<sup>135</sup>.

However, many infrastructure projects along BRI countries are not as smooth as expected. The biggest challenge is the lack of funds in these developing countries. Based on this, China provides a solution by promoting the establishment of financial organizations such as the Silk Road Fund

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<sup>131</sup> Wang Yiwei, *Opportunities and Challenges of "One Belt One Road"*, Beijing: People's Press, 2015, P33

<sup>132</sup> Liu Rui, Gao Feng, "The location selection of the 'One Belt, One Road' strategy and the solution to the overcapacity of traditional industries", *Social Science Research*, 2016, No.1, P45-56; Sheng Bin, Li Feng, "International Political and Economic Analysis of the Belt and Road Initiative", *Nankai Journal*, 2016, No.1, P53-64

<sup>133</sup> Yu Miaojie, Jin Yang, "Current Situation, Causes and Consequences and Countermeasures of Overcapacity", *Journal of Chang'an University*, 2018, No.5, P48-60

<sup>134</sup> Yang Jiechi, "Preparations for the Belt and Road Forum for International Cooperation", *People's Daily*, 2017.02.03

<sup>135</sup> Liu Jianjiang, Luo Shuangcheng, Ling Sili, "International Experience and Enlightenment of Resolving Overcapacity", *Economic Review Journal*, 2015, No.6, P111-114

and the Asian Infrastructure Investment Bank (AIIB), which can provide low interest to other developing countries. But this puts China in a dilemma: (1) If the loan standards and interest rates are too high, the developing countries will slow down or even stop infrastructure projects due to lack of funds; (2) If the standard and interest rate of the loan is too low, other countries especially Western countries will criticize that BRI is a kind of neo-colonialism. For example, Rex Tillerson mentioned that the purpose of China's loan to Africa is to increase these countries' dependence on China, so as to obtain more benefits, such as natural resources<sup>136</sup>.

The most influential doubt against BRI comes from Indian scholar Brahma Chellaney, who proposed the concept of "Debt-trap diplomacy" in his article *China's Debt-Trap Diplomacy* on January 23, 2017. In the article, he described BRI as an economic tool to gain advanced geostrategic interests. To be specific, "China is supporting infrastructure projects in strategically located developing countries, often by extending huge loans to their governments. As a result, countries are becoming ensnared in a debt trap that leaves them vulnerable to China's influence. ... If states are saddled with onerous levels of debt as a result, their financial woes only aid China's neocolonial designs"<sup>137</sup>. In addition, the mainstream media in Western countries have widely adopted the concept of "Debt-trap diplomacy", making it a worldwide influence, "Chinese 'debt-trap diplomacy' quickly spread through the media, intelligence circles and Western governments. Within 12 months, it generated nearly 2 million search results on Google in 0.52 seconds"<sup>138</sup>.

This view gained more support when developing countries became more inclined to raise funds from BRI financial organizations. Although developed countries and international organizations such as the World Bank also provide loans to developing countries, they will set relatively high lending standards to reduce risks. This leaves many developing countries ineligible for borrowing conditions from these organizations for a long time as they cannot meet the standard. For example, the "Global Gateway" plan proposed by Europe has encountered similar problems, "whether the governments of those developing countries are really interested in meeting the high standards required by the EU is an open question. But China's readily borrowing funds will inevitably attract these countries greatly"<sup>139</sup>.

However, there are also many objections to the view of "Debt-trap diplomacy". There are two

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<sup>136</sup> BBC News, "Reality Check: Is China burdening Africa with debt", written by Rex Tillerson, 2018.11.05, <https://www.bbc.com/news/world-africa-45916060>. Last visit 2025.01.16

<sup>137</sup> Brahma Chellaney, "China's Debt-Trap Diplomacy", *Project Syndicate*, 2017.01.23

<sup>138</sup> Deborah Brautigam, "A critical look at Chinese 'debt-trap diplomacy': the rise of a meme", *Area Development and Policy*, 2020, NO.1, P1-14

<sup>139</sup> Deutsche Welle, "Who will fight against Chinese-style neocolonialism?" 2022.04.18, <https://p.dw.com/p/4A4VA>. Last visit 2025.01.16

representative objections. (1) Deborah Brautigam from Johns Hopkins University, the expert on China-Africa relations, believes that the BRI has been labeled as "Debt-trap" and "Neo-colonialism" for insufficient evidence<sup>140</sup>. Deborah Brautigam mentioned that Western media and politicians regard China's overseas engagements in other developing countries as bad news. Hence, they put these above labels on China out of negativity bias or even fear about China's involvement overseas. In other words, even if there is no BRI, China will still be labeled with these labels. For example, American media and politicians labeled China as "new imperial power" as early as 2006 and Hillary Clinton also warned Africans against China's "new colonialism" in 2011<sup>141</sup>. (2) Contrary to the view of the debt trap, some scholars such as Celia Hatton believe that the BRI financial organizations provide developing countries with more loan options, "many African countries embrace the assistance from Beijing, or at least are glad to have more options"<sup>142</sup>. In other words, this view reflects that the concept of the "Debt-trap" underestimates the initiative and judgment of developing countries, because they will not wait to be deceived. If they find that BRI is a trap, they can choose loans from Europe, the United States or international financial institutions. To sum up, it is true that developing countries can indeed obtain loans more easily from BRI financial organizations. If these developing countries can keep their loans within their affordability, this is a golden opportunity for them to gain rapid development.

### **Part C: The increasing importance of regional value chain in BRI**

With the accumulated experience and the doubts encountered, China has made a new reflection on BRI. As a result, two shifting trends have emerged, one is the slowdown in infrastructure construction, and the other is the acceleration of regional value chain construction. In fact, this is the adjustment in short-term planning and long-term planning of BRI.

In terms of short-term planning. China turns to be slowing down and being patient about overseas projects. After BRI was proposed, it attracted widespread attention and has been welcomed by many developing countries. As a result, many projects, especially infrastructure projects, have achieved rapid growth in just a few years. But this growth also caused anxiety and conjecture in many countries. Especially when the Chinese government and enterprises actively promote these projects, it causes other countries to have the impression of greed for short-term benefits towards China, leading to many unnecessary doubts and misunderstandings. Some scholars have even

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<sup>140</sup> The New York Times, "Is China the World's Loan Shark?", written by Deborah Brautigam, 2019.04.26, <https://www.nytimes.com/2019/04/26/opinion/china-belt-road-initiative.html>. Last visit 2025.01.16

<sup>141</sup> Deborah Brautigam, "A critical look at Chinese 'debt-trap diplomacy': the rise of a meme", *Area Development and Policy*, 2020, NO.1, P1-14

<sup>142</sup> BBC News, "China's secret aid empire uncovered", written by Celia Hatton, 2017.10.11, <https://www.bbc.com/news/world-asia-china-41564841>. Last visit 2025.01.16

interpreted that China is trying to buy friendship and political influence by investing massive amounts of money in infrastructure in countries along the BRI<sup>143</sup>. In this regard, President Xi Jinping also specifically mentioned in April 2016 that in the process of promoting BRI, China should not be eager for quick success and should not have short-term behavior<sup>144</sup>. That is to say, before the official launch of the project, China and developing countries should maintain sufficient communication until the mutual interests are clarified as well as the projects are accepted by the local people. Fundamentally, the most important thing is to make these local people really understand and realize what specific benefits these projects can bring to them.

In terms of long-term planning, China has begun to realize that this is what needs to be focused on and improved. After the first few years of exploration, China needs to define BRI more clearly and concretely, so that the concept can be developed more systematically. To be specific, three questions need to be answered. Firstly, what is the ultimate goal of BRI? Even within China, there are many different answers to this question. But these views gradually formed a consensus when BRI progressed in the past years. Simply put, the ultimate goal is to provide an inclusive platform that allows more developing countries to participate, thereby providing new impetus for regional development and economic globalization. China has found that many developing countries are excluded from the existing international order and organizations such as WTO and G20. If BRI can allow more countries to participate in, especially those excluded from the existing international order and organizations, not only can it provide new impetus to globalization, but it also increases China's own international influence.

Secondly, how to eliminate the international suspicion towards BRI, so as to ensure its smooth progress? What many countries are most worried about is that BRI may become an aggressive geopolitical expansion of China, thereby replacing the existing international order. Hence, China needs to clearly let other countries understand and accept that China's BRI is only a supplement to the existing international order, not a replacement. At present, there are two points that contribute to this. (1) The program of BRI determines the fact that China cannot replace the existing order. To be specific, the access standard of the BRI determines that this platform has a very loose organizational structure. Only by lowering the barriers to entry and reducing restrictions on members, can so many countries be able to participate in the BRI in a short period of time. But it also means that China cannot have close enough ties with these countries to form alliances, and also it is impossible to replace the existing international order. (2) Commitments and assurances

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<sup>143</sup> Willy Lam Wo-lap, "Getting lost in 'One Belt, One Road'", *Hong Kong Economic Journal*, 2016.04.12

<sup>144</sup> Xi Jinping, *Xi Jinping and the Belt and Road Initiative*, Beijing: Central Party Literature Press, 2018, P104-105

made by Chinese leaders at the international level that BRI will not replace the existing international order. For example, President Xi Jinping has mentioned in many international conferences, the goal of BRI is not to replace the existing order or start a new one, but to supplement and improve the existing international mechanism. Especially his speeches at the Boao Forum for Asia in 2015, the opening ceremony of the G20 summit in 2016 and BRI Forum for International Cooperation in 2017. In addition, in order to avoid misunderstandings about BRI by other countries, Chinese official media and mainstream media have standardized the names of the BRI in formal occasions, such as “Belt and Road Initiative” rather than “Belt and Road Strategy”<sup>145</sup>.

Thirdly, what approach should China take to fulfill the above goals of BRI? The regional value chain seems like a good approach, because it can connect BRI participants effectively. Moreover, this connection can be closer when the regional value chain produces more mutual economic benefits for all participants. It is possible to be realized because regional value chains can better optimize the allocation of trade and production factors and resources. This is also beneficial to promote regional economic integration and to the formation of the Eurasian Free Trade Area in the future<sup>146</sup>. As mentioned by Chen Jian and Gong Xiaoying, BRI has accelerated the pace of reshaping global value chain<sup>147</sup>.

In conclusion, the first few years of BRI were a stage of exploration and experimentation. At present, China has ended the initial exploration stage and needs to clarify the specific direction and long-term goals of BRI. It is time to rebalance the short-term planning based on infrastructure projects and the long-term planning based on BRI platform, i.e., pay more attention to the long-term. As a result, the construction of regional value chains is gaining increasing importance, as China has realized its crucial role in achieving long-term goals and upgrading in GVC.

### 3.3.4 Summary

The key to Path 2 is to integrate and optimize all of China's current value chains, so as to build a regional value chain with China as a transit platform. This is actually a question from China itself: when China is no longer the manufacturing power or the world factory, how can China continue to stay in the GVC? Path 2 provides a solution: China needs to transform from the identity of manufacturing power to the identity of manufacturing power, service provider and organizer in globalization. Specifically, the regional value chain provides more convenient services for

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<sup>145</sup> FT Chinese, “The Belt and Road Initiative should not be overly strategic”, written by Li Kaisheng, 2017.09.06, <http://www.ftchinese.com/story/001074137?full=y&archive>. Last visit: 2025.01.16

<sup>146</sup> Wang Yiwei, *Opportunities and Challenges of "One Belt One Road"*, Beijing: People's Press, 2015, P27

<sup>147</sup> Chen Jian, Gong Xiaoying, “Research on China's Industry-led Belt and Road Regional Value Chain Construction”, *Research on financial and economic issues*, 2018, No.1, P43-49

production and logistics, which contributes to making China more irreplaceable and important in the international division of labor and globalization.

However, a reality that China needs to face is that China is not the only one building the regional value chain. For example, the regional value chain built by Japan, South Korea or Singapore in Southeast Asia is more competitive and attractive, because they not only invest in Southeast Asian countries earlier than China, but also have better trade relations with the United States and Europe. Therefore, China needs to think and explore how to further develop the advantages and attractiveness of China's regional value chain.

China's regional value chain has two contributions to China's upgrading in the global value chain.

(1) The increasing cost has become the biggest obstacle restricting China's manufacturing industry. As long as the regional value chain can reduce costs, China can continue to maintain its advantages in global manufacturing, so as to ensure or even improve its position in GVC. Regional value chains can facilitate a more unified and efficient allocation of production factors, thereby reducing production costs for enterprises across the entire region. The regional value chain can promote the integration of various existing logistics chains, improving efficiency and reducing costs of Chinese product transportation. (2) On the basis of the regional value chain, China can use the platform effect to deal with the gradual fragmentation of the international division of labor, thus becoming an irreplaceable organizer of production in GVC. When the international division of labor becomes more fragmented, GVC will have a greater need for an international platform that can organize production.

BRI is an important plan proposed by China. In the early years of exploration, BRI focused on infrastructure construction projects. But after the stage of exploration, China has made some changes, that is, rebalancing the short-term and long-term goals of BRI. (1) In the short term, China needs to slow down the progress of BRI projects, especially the infrastructure projects, and pay more attention to the communication work before the official launch of the project. (2) In the long term, China needs to accelerate its establishment of regional value chains so that China can play a platform role in regional and global value chains.

In conclusion, the advantage of Path 2 is practical and easy to implement, because China's experience and advantages in international trade, logistics and manufacturing can be of great help. In other words, the integration and optimization of China's current fragmented value chain can bring huge gains to China. Therefore, even though Path 1 has a brighter future and more lucrative gains, Path 2 has still received great attention from many aspects.

### **3.4 Key Role of Overseas Industrial Park in Path 2**

The key point of Path 2 is to build a regional value chain with China as a transit platform. The goal requires two points that need to be completed. One is that China and other countries need to form a unified understanding and even agreements of the regional value chain; the other is that Chinese companies need to successfully invest overseas, so as to establish local industrial chains in different countries, which can be embedded in China's regional value chain. Currently, the former has made a lot of progress under the promotion of BRI. However, the overseas investment of Chinese enterprises has encountered various problems.

In other words, the difficulty of overseas investment has become an important obstacle to path 2. Based on this, overseas industrial parks are expected to be a possible solution.

#### **3.4.1 Smooth Progress for Path 2: Increasing International Agreements**

As mentioned above, building the regional value chain plays a crucial role in the long-term planning of BRI. The more countries accept BRI, the more smoothly China can build a regional value chain.

At present, China uses two ways to obtain an international consensus on BRI. One is through meetings of bilateral leaders, and the other is through high-level international conferences organized by the Chinese government. As a result, within a few years, China and many countries have reached oral or written agreements on joint cooperation in BRI. These agreements also make an important contribution to promoting the construction of regional value chains.

##### **Part A: China's motivation to 'promote the international agreements**

International agreements on BRI will help China improve its diplomacy with its neighbors. In recent years, there are two reasons why China has to pay more attention to neighboring diplomacy. (1) In the past ten years, many international hotspot issues have occurred around China, such as the North Korean nuclear issue, the East China Sea sovereignty dispute, the Taiwan issue, the South China Sea sovereignty dispute, the Myanmar issue, the China-India border issue, and the Afghanistan issue. China needs to take the initiative to face and deal with them, because many of them are related to China. (2) China needs to seek support from neighboring countries to deal with the pressure from the United States. The United States has always been worried about China's rise, especially after China replaced Japan as the world's second-largest economy in 2010. In recent years, China's rapid development in technological fields such as artificial intelligence and the digital economy has touched the bottom line of the United States. Therefore, the United States continues to put pressure on China to contain China's development, such as the Sino-US trade war.

Fundamentally, China hopes to eliminate other countries' worries, misunderstandings and suspicions about China's rising. The specific way is to strengthen regional economic cooperation within BRI. (1) For neighboring developing countries. BRI hopes to express China's willingness to provide free rides for the neighboring countries. It is constantly mentioned in the official documents of BRI that China needs to find common interests and cooperation points, which meet the development plans of other developing countries. In other words, China hopes to realize the diplomatic concept of Good-Neighborliness and Friendly Cooperation through BRI, so that these neighboring developing countries can regard China as a partner rather than an enemy with conflicts of interest. (2) For neighboring and remote developed countries such as Japan and the United States. China also hopes to ease the intense competition with these developed countries through cooperation in BRI. For example, the competition between China and Japan for the most influential country in East Asia is increasingly intense. Excessive competition may lead to huge losses for many countries. If the two countries can cooperate under the framework of BRI, it will definitely reduce the intensity of the competition between China and Japan<sup>148</sup>. In addition, Chinese Premier Li Keqiang proposed 2015 a plan for international cooperation, which aimed at promoting tripartite cooperation among China, developed countries and developing countries within the BRI. Specifically, it hopes to gather the advantages of every side, that is, developed countries' advantages in technology and innovation, China's advantages in manufacturing, and developing countries' advantages in cheap production costs<sup>149</sup>.

In conclusion, whether BRI can gain international recognition is crucial to China's neighboring diplomacy. Therefore, a key task of China's diplomacy is to try its best to promote China and more countries to reach intergovernmental agreements on BRI. In this regard, China proposed BRI to provide a broader space for economic cooperation, so as to prove that China's development is a peaceful rise due to the mutual benefit and win-win results.

### **Part B: Ways to facilitate international agreements**

China is trying to achieve an international consensus on BRI in two ways. The first is the direct talks between leaders, including Chinese leaders' overseas visits and receptions to foreign leaders, and the meeting at international summits. The second is the high-level intergovernmental conference on BRI organized by the Chinese government. China has held two international forums, called Belt and Road Forum for International Cooperation. (1) *The First Belt and Road Forum for international Cooperation* was held on May 14-15, 2017. This is the biggest international conference of BRI since

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<sup>148</sup> Zheng Yongnian, Zhang Chi, "The Belt and Road Initiative and China's Macro Diplomacy", *Contemporary World*, 2016, P8-11

<sup>149</sup> Li Keqiang, China's economic blueprint, *The economist*, 2015.12.11

it was proposed. In addition to 29 presidents and about 1500 representatives from more than 130 countries and 70 international organizations, UN Secretary-General Guterres, World Bank President Jim Yong Kim, and the former President of International Monetary Fund Christine Lagarde also attended the forum. There are two main types of meetings: one is a round-table summit attended by leaders, and the other is high-level meetings around six specific themes. According to Chinese Foreign Minister Wang Yi, the meeting aimed to achieve three goals: reach an international consensus on BRI, promote cooperation on major projects, and establish a long-term cooperation mechanism<sup>150</sup>. (2) *The Second Belt and Road Forum for International Cooperation* was held in Beijing on April 25-27, 2019. There are nearly 5,000 foreign guests from more than 150 countries and 90 international organizations. The forum has a round-table summit attended by leaders and 13 high-level meetings. In the end, a joint announcement was issued by 38 national leaders and 2 heads of international organizations, expressing consensus and willingness to continue to strengthen cooperation on BRI. According to the statistics of forum organizer, the forum has achieved 283 concrete results in six categories<sup>151</sup>. The forum also attracted the attention of developed countries such as Japan, the United Kingdom, France, and Germany, and some representatives were sent to participate in the forum. For example, German Economy Minister Peter Altmaier participated in the meeting and expressed the interest of European countries to participate in BRI, but these members attended in the form of a group<sup>152</sup>.

As President Xi Jinping mentioned, the key to achieving an international consensus is to interface with the development plans of other countries and international organizations, so as to achieve coordinated cooperation and win-win development<sup>153</sup>. Whether it is a leaders' meeting or a high-level intergovernmental meeting, it shares the same purpose of finding the common goals that can meet all these development plans: (1) The interface with the development plans of other countries, such as Kazakhstan's plan of Bright Path (Nurly Zhol), Mongolia's plan of Steppe Road, Vietnam's plan of Two Corridors and One Economic Circle. (2) The interface with the development plans of international organizations, such as the United Nations' 2030 Agenda for Sustainable Development, ASEAN's Community Vision 2025, APEC's Connectivity Blueprint 2015-2025, and WTO's Trade Facilitation Agreement.

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<sup>150</sup> People's Daily, "One Belt One Road", 2017.05.06

<sup>151</sup> Xinhua News Agent, "List of Deliverables of the Second Belt and Road Forum for International Cooperation", 2019.04.28, [http://www.xinhuanet.com/world/2019-04/28/c\\_1124425293.htm](http://www.xinhuanet.com/world/2019-04/28/c_1124425293.htm). Last visit: 2025.01.16

<sup>152</sup> Reuters, "Europe wants to deal with China as a group - German minister", written by Tom Daly, 2019.04.26. <https://www.reuters.com/article/uk-china-silkroad-germany-idUKKCN1S20R9>. Last visit: 2025.01.16

<sup>153</sup> Xi Jinping, "Speech at the opening ceremony of the Belt and Road Forum for International Cooperation", *Xinhua News*, 2017.05.14. Xi Jinping, "Closing Remarks at the Roundtable Summit of the Belt and Road Forum for International Cooperation", *Xinhua News*, 2017.05.15

### **Part C: Smooth progress of development**

Regional Comprehensive Economic Partnership (RCEP) took effect in 2022. It gives China greater confidence in BRI, which contributes a lot to RCEP. Zeng Wenge described that BRI and RCEP are complementary in promoting regional integration: the former provides hard foundations such as infrastructure, while the latter provides soft services such as coordinating cross-border trade and investment rules<sup>154</sup>.

In fact, the “Road (21st Century Maritime Silk Road)” of BRI is a positive response and support to RCEP, because it emphasizes the cooperation between China and ASEAN in this field. Just one year after the RCEP negotiations officially started in November 2012, in October 2013, Xi Jinping proposed the 21st Century Maritime Silk Road as another pillar of BRI. Finally, after eight years of negotiation, RCEP was officially signed on November 15, 2020, and came into effect on January 1, 2022<sup>155</sup>.

### **3.4.2 Challenge for Path 2: Chinese Enterprises’ Overseas Investment**

#### **Part A: Role of overseas investment in the construction of regional value chains**

The overseas investment of Chinese enterprises plays an important role in the process of building the regional value chain. First, with the success of overseas investments, Chinese enterprises can establish their own supply chains and industrial chains locally. Second, connecting all these local chains will create a very large network around Chinese companies, which shapes the basic framework of China’s regional value chains. As Chen Jian, the former vice minister of the Ministry of Commerce of China, summed up that overseas investment will help China's industrial chain to extend to neighboring countries, promoting the process of regional economic integration. It will further deepen the industrial cooperation between China and other countries when RCEP takes effect<sup>156</sup>.

Therefore, the success of overseas investment has a crucial impact on the construction of regional value chains. There are three questions that need to be answered.

The first question is whether Chinese companies have enough motivation for overseas investment.

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<sup>154</sup> Chongqing University, “Prospects for the Integration of the RCEP Agreement and BRI”, written by Zeng Wenge, 2021.03.29, <https://law.cqu.edu.cn/info/1427/13486.htm>. Last visit: 2025.01.16

<sup>155</sup> The Japan Times, “Asia-Pacific's 15-member RCEP trade deal to take effect in January”, 2021.11.03, <https://www.japantimes.co.jp/news/2021/11/03/business/economy-business/rcep-january>. Last visit: 2025.01.16; Andrew Mullen, “What is RCEP, the world’s largest free trade deal that is under way?”, South China Morning Post, 2022.1.1

<sup>156</sup> Li Mingming, “Interview with former Vice Minister of Commerce Chen Jian”, *National Business Daily*, 2022.03.15

Nowadays, Chinese enterprises have a strong demand for overseas investment, mainly for three purposes: reducing production costs, avoiding trade barriers to Chinese products from countries such as the United States, and expanding overseas markets. At present, this demand is mainly concentrated in those industries with mature technology and comparative advantages, such as textiles, home appliances, equipment manufacturing, metallurgy, automobiles, motorcycles and so on. With overseas investment in these advantageous industries, China can achieve rapid industrial agglomeration abroad, i.e., build local chains around Chinese enterprises quickly. This is the inevitable result of Chinese enterprises' industrial upgrading and the deep integration into GVC, which will ultimately enhance the international competitiveness of Chinese industries and enterprises<sup>157</sup>.

The second question is whether the investment object countries have the sufficient willingness to accept investment, technology and equipment from Chinese enterprises. In this regard, many Chinese scholars and officials are relatively optimistic that developing countries of BRI will welcome investment from Chinese companies. Their argument is that China's technology, experience and standards are more suitable for the industrial development of these countries, because China has similar development paths and resource endowments<sup>158</sup>. Hence, even though Chinese technology and equipment are not world-leading, they may be more complementary and compatible with developing countries. This allows developing countries to promote local industrialization more quickly and thus participate in the international division of labor and globalization as early as possible.

The third question is whether China and the investment object country can provide sufficient services and support for Chinese overseas investments. (1) The most important is naturally the intergovernmental agreements to support Chinese investments. Fortunately, BRI has facilitated many intergovernmental agreements, which are beneficial to China's overseas investment. It will bring more favorable conditions, if China and other countries can successfully build a platform for international and multilateral economic and trade through BRI. (2) But these official agreements are not enough. More specific measures and industrial services are also needed, which require the work of government departments and service companies. Government departments from China and other developing countries need to provide more specific and comprehensive public services and social services, so that Chinese enterprises can integrate with the local society quickly. Moreover, if Chinese service companies can build an international industrial service network, it can

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<sup>157</sup> Bai Shujie, "China's overseas investment is strong", *International business daily*, 2022.07.20, No.9999.

<sup>158</sup> Chen Jian, Gong Xiaoying, "Research on China's Industry-led Belt and Road Regional Value Chain Construction", *Research on financial and economic issues*, 2018, No.1, P43-49

make the overseas investment of Chinese enterprises more smoothly. For example, Chinese companies can choose the ideal and suitable investment objects according to the suggestions of investment companies, who conduct comprehensive evaluations of the potential objects through this industrial service network.

### **Part B: Insufficient overseas investment becomes the main obstacle to regional value chains building**

The success of Chinese enterprises' overseas investments plays a decisive role in building the regional value chains. But in fact, China's overseas investment is not smooth, because the cost and risk of some investments have exceeded the Chinese enterprises' affordability. There are three reasons.

First, the insufficient funds of Chinese enterprises. The purpose of overseas investment is to reduce production costs, but the biggest difficulty restricting their investment is their lack of experience and funds. (1) The lack of sufficient experience and information for overseas investment. This leads to the inability of enterprises to make accurate predictions and develop a well-prepared investment plan. For example, many companies are now unable to judge the best way to reduce costs, that is, should the production line be moved to inland China or to Southeast Asia?<sup>159</sup> (2) The lack of sufficient funds for overseas investment. For those companies that aim to reduce production costs, on the one hand, they have to transfer to lower-cost production areas; on the other hand, they lack sufficient funds for industrial transfer, because of their insufficient funds due to low product added value<sup>160</sup>. In other words, as these companies are at the low end of GVC, their profit margins are squeezed, which leads to their investment space and costs have also been squeezed too. Therefore, it is difficult for them to find a suitable investment destination, because they have very strict control and requirements on the cost of overseas investment and industrial transfer.

Second, the imperfection of China's financial system. Some companies mentioned they couldn't get enough money from domestic financial institutions for overseas investments. (1) From a technical perspective, financial organizations lack mature risk assessment standards and financial tools for overseas investment. It leads to the rejection of loan and credit requests for overseas investment. Financial organizations are not only unable to conduct accurate risk assessments for

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<sup>159</sup> Lu Feng, Li Xin, Li Shuangshuang, "Why China? The Economic Logic of the Belt and Road Initiative", *International Economic Review*, 2015, No.3, P9-34

<sup>160</sup> Xu Shaoshi (eds.), *BRI and International Capacity Cooperation: The Way of Enterprise Survival*, Beijing: China Machine Press, 2017, P371

overseas investment projects, but also lack financial tools to provide safe and reliable financial support. According to a survey conducted by the China Council for the Promotion of International Trade, less than 1% of overseas investment projects by private enterprises have obtained policy bank loans<sup>161</sup>. (2) From the perspective of financial regulations, China still lacks specific and complete financial policies and standards. At present, most financial policies only apply to companies investing in China, but there are no specific rules and standards for companies investing overseas<sup>162</sup>. This has resulted in many restrictions and obstacles for overseas investment companies to raise funds due to unclear rules.

Third, the unfavorable business environment in the investment object countries. The investment objects are mainly developing countries around China, especially the countries in BRI. (1) The lack of infrastructure in these countries has become an important restriction on China's overseas investment, especially the basic infrastructure such as electricity, water supply, roads, and communications<sup>163</sup>. (2) The low degree of industrialization in these countries has resulted in the lack of some production factor markets, such as the labor market<sup>164</sup>. (3) The main constraint is the incomplete system of these countries, which leads to a sharp increase in the risk of China's overseas investment. Some investment object countries are ranked relatively high in the Global Corruption Perception Index (CPI), such as Cambodia, Vietnam, Thailand, Indonesia and others<sup>165</sup>, leading to the low administrative efficiency of the local government and the increase of extra costs for enterprises<sup>166</sup>. Some investment object countries are unstable with frequently replaced regimes, which leads to the cancellation or suspension of China's investment. For example, the newly established government in Sri Lanka has suspension of China's investment in port projects<sup>167</sup>.

To sum up, although Chinese enterprises and investment object countries are both looking forward to the success of China's overseas investment, the above three investment problems for

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<sup>161</sup> Du Ying, Zhang Xiuqing, Liang Tengjian, "The difficulty for Chinese agricultural enterprises to 'go abroad'", *ChinaWatch*, 2022.04.11

<sup>162</sup> Guo Baihong, "Research on China's Overseas Economic and Trade Cooperation Zones' Risk Prevention of under BRI Strategic Framework", *Modern Management Science*, 2018, No.8, P55-57

<sup>163</sup> Zou Haofei, Duan Jingxin, "Overseas cooperation zones convey new ideas of Chinese investment", *China Investment*, 2015, P33-37; Zou Haofei, Du Zhenli, Duan Jingxin, "Research on the Development of Overseas Economic and Trade Cooperation Zones under the 'One Belt, One Road' Strategy", *Journal of International Economic Cooperation*, 2016, No.10, P41-45

<sup>164</sup> Zhou Mi, "Overseas Economic and Trade Cooperation Zone: An Important Platform for the Sustainable Development of Chinese Enterprises", *International Project Contracting & Labor Service*, 2017, No.10, P26-30

<sup>165</sup> Guo Baihong, "Research on China's Overseas Economic and Trade Cooperation Zones' Risk Prevention of under BRI Strategic Framework", *Modern Management Science*, 2018, No.8, P55-57

<sup>166</sup> Bo Wenguang, Chen Lulin and Hu Yi, "Research on the Sustainable Development of China's Overseas Economic and Trade Cooperation Zones under the Belt and Road Initiative", *Journal of Chang'an University*, 2018, Vol.20, No.4, P64-74

<sup>167</sup> Jia Lingjun, Sa Qirong, "An Analysis of the Development Status of China's Overseas Economic and Trade Cooperation Zones", *Practice in Foreign Economic Relations and Trade*, 2015, No.8, P25-28

great risks and costs need to be solved first. According to the risk rating data of China Export Credit Corporation on economies along the BRI countries in 2017, 84% of the economies along the BRI belong to medium-to-high-risk areas<sup>168</sup>. Therefore, how to reduce these risks and costs has become a crucial key to the success of Chinese enterprises' overseas investment.

### **3.4.3 Overseas Industrial Parks as a Potential Solution**

It can be seen from the above that China faces favorable and unfavorable conditions in the process of building the regional value chain. The favorable conditions are that, with BRI, China has strengthened its diplomatic relations with neighboring developing countries, which helps form a series of intergovernmental agreements that are beneficial to Chinese enterprises' overseas investment. The mainly unfavorable condition is that Chinese companies don't do well in overseas investments because they face more costs and risks than they can afford.

To sum up, the biggest challenge currently faced by China's regional value chain is to reduce the cost and risk of Chinese companies' overseas investment. Based on this, China's overseas industrial parks may be a potential solution for this.

#### **Part A: Significance of overseas industrial parks to overseas investment**

The fundamental reason for the difficulty of overseas investment by Chinese enterprises is that they are currently in the stage of learning and adapting to international operations, so it still has a long way to go before becoming the experienced multinational companies.<sup>169</sup> This challenge will become more severe when Chinese companies' investments are concentrated in developing countries, which have imperfect institutions, unstable regimes, and a lack of infrastructure and industrial services. Therefore, it is difficult to solve the challenges of China's overseas investment in a short period of time. It is impossible for Chinese enterprises to immediately become enterprises with rich overseas investment experience and strength, and it is also impossible for developing countries, the investment object countries, to provide immediately comprehensive infrastructure and support services for industrial production.

However, China's overseas industrial parks make it possible to solve the above problems, because they can provide a good investment environment overseas.<sup>170</sup> Based on the infrastructure and services provided by overseas industrial parks, the requirements for the strength of Chinese

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<sup>168</sup> Liu Yinfen, "The dilemma and countermeasures of overseas industrial park construction under the background of 'One Belt and One Road'", *Practice in Foreign Economic Relations and Trade*, 2019, No.3, P50-53

<sup>169</sup> General Office of the State Council of the People's Republic of China, *Better implement the "going global" strategy*, 2006.03.15

<sup>170</sup> Zhang Guangrong, "An Analysis of the Development Policy of China's Overseas Economic and Trade Cooperation Zones", *Journal of International Economic Cooperation*, 2013, No.2, P40-42

companies and the local business and industrial conditions has been lowered. This provides a new idea for China's overseas investment, that is, first invest in overseas industrial parks to improve the local investment environment, and then attract enterprises to enter the industrial parks. This can promote China's overseas investment more proactive, rather than waiting for Chinese companies to become leading companies or the investment object countries to provide a good enough investment environment.

Specifically, the significance of the overseas industrial park is to divide China's overseas investment into two stages. The first stage is investment in overseas industrial parks, and the second stage is for enterprises to select suitable overseas industrial parks with fewer investment costs and risks. The investment divided into two stages can bring the following three benefits.

Firstly, it could enable enterprises to stay calm during overseas investment. At the beginning of overseas investments, excessive optimism will make many enterprises easy to become impulsive and blind, which may result in unnecessary losses. Therefore, in the first stage, if Chinese enterprises and the government can focus on the investment and construction of overseas industrial parks, this will curb the impulse and blind investment of enterprises to a certain extent. At least this will not further encourage the blind optimism of enterprises in the early stage of investment, so that enterprises have more time for preparation and planning.

Secondly, it could enable enterprises to have a clearer choice of the overseas investment object. Many Chinese enterprises decide on suitable investment objects after comparing different cities. But this kind of comparative analysis is difficult to make because there are so many factors to consider when comparing cities. On the contrary, the comparative analysis among overseas industrial parks will be easier and more specific. This helps enterprises narrow down the scope and clarify the main point when they make the decision, so that they can find the most suitable overseas investment object.

Thirdly, it could expand the benefits of overseas investment. In addition to enterprises that originally planned to invest overseas, the investors of overseas industrial parks can also benefit from this and expand their business overseas. To be precise, this is a win-win situation. The investors of overseas industries park get profits by providing the industrial infrastructure and services to enterprises; and the enterprises can reduce the cost and risk of overseas investment by entering the industrial parks.

#### **Part B: Three ways to reduce cost and risk**

The investment of Chinese enterprises can be much earlier and smoother than expected, when

overseas industrial parks take the initiative to create a micro and better investment environment. This makes it unnecessary for Chinese companies to wait passively for developing countries to slowly improve the local investment environment. Specifically, China's overseas industrial parks will reduce the cost and risk of overseas investment in the following three ways: providing supporting infrastructures for production, providing comprehensive services and providing economic effects brought by the agglomeration of enterprises.

The first function of overseas industrial parks is to provide various supporting infrastructures required for production and industrial development.<sup>171</sup> Although insufficient infrastructure in developing countries has become a key reason for hindering foreign investment, developing countries cannot solve this problem immediately as this is a long and gradual process. But China's overseas industrial parks could solve this by providing the infrastructures such as production infrastructures (e.g. land leveling, water, electricity, and sewage treatment) and living& office infrastructures (e.g. office buildings, staff dormitories, and canteens).<sup>172</sup> Even some industrial parks will provide standard production workshops, so that enterprises can start production immediately after entering the industrial park.

The second function of overseas industrial parks is to provide comprehensive services for enterprises. There are three main services. (1) Provide basic information on politics, economy, culture and laws of the investment object countries, so that enterprises can quickly integrate into the local society and market.<sup>173</sup> (2) Provide a one-stop service to reduce the time and cost of registration procedures in local government departments.<sup>174</sup> Representative overseas industrial parks that provide very good one-stop services are Zambia Economic and Trade Cooperation Zone, Thailand-China Rayong Industrial Park, Cambodia Sihanoukville Special Economic Zone etc.<sup>175</sup> In addition, overseas industrial parks can also communicate and coordinate with local governments and societies on behalf of Chinese enterprises inside the park, not only to deal with emergencies such as natural disasters and strikes, but also to help enterprises improve their relationship with local society.<sup>176</sup> (3) Provide more advanced customized services. Industrial parks can help

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<sup>171</sup> Xun Kening, "New opportunities for the development of overseas parks under the background of the 'Belt and Road'", *Theory Journal*, 2015, No.10, P46-51

<sup>172</sup> Lu Hongyan, "Experience and Enlightenment of the Development of China's Overseas Economic and Trade Cooperation Zones", *Foreign Economic Relations & Trade*, 2013, No.10, P7-10

<sup>173</sup> Xu Shaoshi (eds.), *BRI and International Capacity Cooperation: Research on Industry layout*, Beijing: China Machine Press, 2017, P443-447

<sup>174</sup> Zheng Lipeng, "Assessing Overseas Economic and Trade Cooperation Zones", *China Investment*, 2012, P63-64

<sup>175</sup> Lu Hongyan, "Experience and Enlightenment of the Development of China's Overseas Economic and Trade Cooperation Zones", *Foreign Economic Relations & Trade*, 2013, No.10, P7-10

<sup>176</sup> He Jia, "Overseas Economic and Trade Cooperation Zone: A Win-Win Platform for the Belt and Road Initiative", *21st Century Business Herald*, 2017.03.29

companies contact local sales channels, suppliers, agents, logistics providers, etc. Moreover, industrial parks can not only help companies contact local accounting firms and law firms with good reputations, but also assist companies in applying for suitable loans or in applying for preferential policies that fit their own circumstances.<sup>177</sup>

The third function of overseas industrial parks is to provide a place for Chinese enterprises to gather abroad, thereby creating an agglomeration effect. It has great significance in reducing the cost and risk of China's overseas investment. (1) The agglomeration effect enables enterprises in the park to share risks and benefits, which is particularly important for small and medium-sized enterprises. Specifically, this agglomeration effect is conducive to better integration of resources, so that all enterprises can maximize the sharing of resources<sup>178</sup> and eventually reduce costs and risks<sup>179</sup>. For example, all enterprises can share the labor market generated by the vocational training center established around the industrial park. (2) The agglomeration effect is conducive to obtaining more preferential policies for the overseas industrial park<sup>180</sup>, such as tax deductions. The greater the agglomeration effect, the more local influence and support can be obtained by overseas industrial parks.<sup>181</sup>

In other words, if the main players of overseas investment are large-scale leading enterprises in China, they can deal with these risks and costs alone on their own strengths. But unfortunately, the current process of industry integration in China is not smooth, preventing the emergence of leading companies in different industries. One reason is China's insufficiency in industrial planning and administrative management, and another reason is that the rapid globalization process has led to more intense international competition towards Chinese enterprises. As a result, many Chinese small and medium-sized enterprises need to invest overseas before the completion of industry integration. Based on this, it is important when China's Overseas Industrial Parks gather these small and medium-sized enterprises as a group, so as to have strength to deal with the costs and risks of overseas investment. This increases the success rate of foreign investment. This process is also

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<sup>177</sup> Du Juan, "Research on the Development of Overseas Economic and Trade Cooperation Zones under BRI", *Accounting learning*, 2018, No.9

<sup>178</sup> Xun Kening, "New opportunities for the development of overseas parks under the background of the 'Belt and Road'", *Theory Journal*, 2015, No.10, P46-51

<sup>179</sup> Zhang Xiaotao, "Strengthen the construction of overseas industrial parks and contribute Chinese wisdom to the 'Belt and Road' community with a shared future", *Governance*, 2018, No.7, P16-20

<sup>180</sup> Li Chunding, "The construction of overseas economic and trade cooperation zones and the 'going out' of Chinese enterprises", *Foreign Investment in China*, 2008, No.8, P64-66

<sup>181</sup> Hu Jiangyun, Zhao Shubo, Wang Xiuzhe, "Research on Overseas Economic and Trade Cooperation Zones under the Concept of BRI", *Development Research*, 2017, No.1, P8-12; Zou Haofei, Duan Jingxin, "Overseas cooperation zones convey new ideas of Chinese investment", *China Investment*, 2015, P33-37; Zou Haofei, Du Zhenli, Duan Jingxin, "Research on the Development of Overseas Economic and Trade Cooperation Zones under the 'One Belt, One Road' Strategy", *Journal of International Economic Cooperation*, 2016, No.10, P41-45

called cluster overseas investment or cluster industry transfer by some Chinese scholars.<sup>182</sup>

### 3.5 Summary

This chapter attempts to illustrate China's overseas industrial parks from the perspective of China's upgrading in GVC. The research on the concept of GVC has always attracted wide attention in China, and now China is indeed facing a very important task: upgrading its position in GVC. In short, after entering the GVC for more than 40 years, China's original advantages have gradually disappeared, and new comparative advantages have emerged. It is necessary to make some changes so that China can find a better way to participate in GVC.

At present, China focuses on upgrading in GVC through two paths. (1) Path 1 is to realize the fundamental transformation in the fields of design, production, consumption and service by means of the digital economy, so as to gain a leadership advantage in GVC. The key is whether China can achieve revolutionary breakthroughs in digital technology. The advantage of this path is that it enables China to gain global leadership. The disadvantage is that the risks and costs that need to be taken are huge, especially the risks that digital technology cannot achieve revolutionary breakthroughs. (2) Path 2 is to build China's regional value chains by creating new and integrating existing overseas value chains of Chinese enterprises, thereby strengthening the position in the international division of labor and globalization. The premise of doing so is that Chinese enterprises must achieve successful overseas investments and establish regional supply chains overseas first. The key to Path 2 is whether China can successfully build a stable and widely accepted regional value chains.

This thesis focuses on the important role of China's overseas industrial parks in Path 2. This path is relatively easy to achieve when compared with path 1, because its main goal is not to achieve revolutionary breakthroughs in technology and create new knowledge, but to focus only on promoting Chinese overseas investment. Moreover, experience and comparative advantage accumulated during the rapid development of China can bring great benefits to Path 2. To sum up, it is promising for Path 2, especially when BRI has promoted the intergovernmental agreements smoothly for Chinese overseas investments among China and other countries. However, Chinese enterprises have to face the challenge of high cost and risk in overseas investments, which has become the biggest obstacle to the construction of China's regional value chain. In this case, China

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<sup>182</sup> Zhang Yin, "Research on the Development Status of China's Overseas Economic and Trade Cooperation Zones", *China Journal of Commerce*, 2018, No.22, P66-67

hopes to solve the above problems through overseas industrial parks, which can take the initiative to improve the investment environment for Chinese enterprises. The key to improving the investment environment lies in the infrastructure and services provided by China's overseas industrial parks, thereby enabling Chinese companies to reduce investment costs and risks.

## Chapter 4 Methodology: Research on Overseas Industrial Parks

### 4.1 Main Research Question

#### 4.1.1 Key Questions and Hypotheses

The review of Chapters 2 and 3 helps to clarify the main research questions of this study. Chapter 2 focuses on the key elements and motivations behind China's Overseas Industrial Park Policy (i.e. the OZTCZ policy). Notably, this policy was created in response to two practical needs. First, the rapid development of overseas industrial parks has brought a series of problems, such as overheated investments without careful thought and planning. Second, inexperienced Chinese investors in overseas industrial parks are unable to develop and implement sound long-term planning on their own, or address the complex challenges during the investments. Based on these realities, the aim of the Overseas Industrial Park Policy is to prevent unreasonable overheated investments and provides a visible reference standard for inexperienced investors of overseas industrial parks, especially in position selection, plans formation, and operational capacity strengthening. This is also beneficial for the government, as it allows them to focus on supporting high-quality overseas industrial parks that meet the standards, thus promoting their better and faster development.

Chapter 3 demonstrates the importance of overseas industrial parks in the long-term planning of the country's industrial restructuring. The overseas industrial parks are expected to become a key driver of China's upgrading in GVC in the future. This is because compared to another method of upgrading in GVC (to improve products and services through the digital economy and artificial intelligence), the method of promoting Chinese companies to build larger overseas regional value chains seems to be more achievable in the short term. From this perspective, we can find that a series of relevant policies and initiatives put forward by China, such as the Overseas Industrial Park, BRI, and the Initiative for International Productive Capacity Co-operation, all of them have the connection with promoting the expansion of overseas regional value chains through the overseas industrial parks<sup>183</sup>.

In summary, the core mission of overseas industrial parks is to better reduce the cost and risk of Chinese enterprises' overseas investment (especially in countries and regions along BRI), and ultimately help enterprises better establish overseas regional value chains. To achieve this goal, it

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<sup>183</sup> Zhang Mei, Dong Guangyao, "Cooperation zone is an important connection point of the Belt and Road Initiative", *China Investment*, 2015, No.7, P38-39

needs to be made clearer whether such a goal is meaningful in fact and feasible. In other words, can China's overseas industrial parks promoted by the policy provide significant assistance to Chinese enterprises for their overseas investment?

Based on literatures in 2.4, the author has summarized the success of overseas industrial parks into three key factors: First, overseas industrial park investors not only need to have sufficient investment motivation, but also need to be able to formulate and implement feasibility plans. Second, overseas industrial parks need to attract enough companies to enter the industrial parks, and the key factor here is to clarify the criteria for Chinese companies to choose overseas industrial parks. Third, even if overseas industrial parks can achieve the above two points, they also need to be able to achieve sustainable profitability in the long term, otherwise they will not be able to help China achieve the upgrade of the global value chain.

Therefore, this study attempts to conduct research from three perspectives with three sub-questions corresponding to 3 following Chapters. Chapter 5 focuses on overseas industrial parks investors. Chapter 6 focuses on the Chinese enterprises in these parks. And Chapter 7 explores the sustainable profitability of China's overseas industrial parks.

#### **4.1.2 Research Subjects of Overseas Industrial Parks**

This study selects four representative China's overseas industrial parks in Southeast Asia for two main reasons. First, these four parks were the earliest industrial parks who pass the assessments of Chinese Ministry of Commerce and Ministry of Finance, end with earning certification as "**Overseas Economic and Trade Cooperation Zone**". And these four parks have been in development for relatively long periods with so many cases and experience, making them suitable subjects for observation.

Second, these four parks are located in Southeast Asia, a region where Chinese enterprises are most eager to establish overseas supply chains, because ASEAN's importance to China is expected to grow significantly<sup>184</sup>: (1) There is a strong demand for cooperation between China and ASEAN, for promising mutual benefits. For China, Southeast Asia is one of the most ideal regions for overseas investment and industrial transfer, considering factors like geographical advantage and resource endowment. For Southeast Asian countries, investment from China can significantly drive their industrialization and modernization. (2) Cooperation between China and ASEAN is expected to become closer and more important. This is especially evident from initiatives like the 21st-

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<sup>184</sup> Jia Lingjun, Zhu Lin, "A New Way of China-ASEAN Economic and Trade Cooperation: Overseas Economic and Trade Cooperation Zone", *Co-operative Economy & Science*, 2015, No.13, P109-111

Century Maritime Silk Road (the Road of BRI) proposed by President Xi Jinping during his visit to ASEAN in 2013, and RCEP that came into effect on January 1, 2022. Against this backdrop of strengthened economic cooperation between China and ASEAN, ASEAN has become one of the preferred regions for China's overseas industrial parks investors and Chinese enterprises. Even the China's overseas industrial parks are regarded as a new way to deepen bilateral economic and trade cooperation between China and ASEAN.

#### **4.1.3 Overview of Four Research Subjects**

The following provides a detailed introduction to the four selected research subjects.

##### **No. 1: Longjiang Industrial Park (LJIP) in Vietnam**

The Longjiang Industrial Park project officially began in November 2007, with infrastructure construction starting in May 2008. In September 2011, it passed the assessment by the Ministry of Commerce and the Ministry of Finance of China, obtaining the qualification as an "Overseas Economic and Trade Cooperation Zone". The industrial park, covering a total area of 6 km<sup>2</sup> with a total investment of 100 million USD, is located in Tan Phuoc District, Tien Giang Province, near the Vietnam's economic center Ho Chi Minh City (also known as Saigon), and is close to three ports and one airport (Tan Son Nhat International Airport)<sup>185</sup>.

By the end of July 2020, 47 enterprises from China, South Korea, Japan, Malaysia, the Netherlands, India, and other countries had signed agreements with the LJIP. Of these, 36 companies have officially started production, with a total investment of 1.57 billion USD. The industries primarily involve light manufacturing such as textiles, machinery, electronics, building materials, chemicals, and specific sectors such as textiles, footwear, feed, stainless steel, electromechanical products, food, rubber, and plastic products<sup>186</sup>.

LJIP has three advantages: (1) It benefits from its location near Ho Chi Minh City, which is Vietnam's economic center city and offers excellent conditions for international trade, especially with its convenient global maritime transportation. (2) The LJIP has attracted significant attention from both governments, as it obtained the qualification of "Overseas Economic and Trade Cooperation Zone" at very early time. On June 25, 2007, Vietnam's Prime Minister Nguyen Tan Dung signed the Document No. 801/TTg-CN, approving for the construction of the LJIP<sup>187</sup>. (3) LJIP focuses on

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<sup>185</sup> LJIP website, <http://ljip.vn/web/en>. Last visit: 2025.01.10

<sup>186</sup> China Economic Net, "Introduction of Longjiang Industrial Park", [http://intl.ce.cn/zhuanti/2015/jwjm/yz/201511/25/t20151125\\_7125391.shtml](http://intl.ce.cn/zhuanti/2015/jwjm/yz/201511/25/t20151125_7125391.shtml). Last visit 2025.01.10

<sup>187</sup> Belt and Road Portal (Yidaiyilu), "Introduction of Longjiang Industrial Park", written by Liu Meng, <https://www.yidaiyilu.gov.cn/p/6019.html>. Last visit 2025.01.10

industries that Chinese enterprises need to overseas invest for costs and tariffs reduction, i.e. the light industries including textiles, clothing, footwear, and metal products. These industrials are also the ones that Vietnam plans to develop at moment.

## **No. 2: Vietnam-China (Haiphong-Shenzhen) Economic and Trade Cooperation Zone (VCEP)**

Vietnam-China (Haiphong-Shenzhen) Economic and Trade Cooperation Zone (VCEP) is located in Haiphong, the city has biggest port in northern Vietnam. Haiphong is also the third-largest city in Vietnam, where is only 102 kilometers from the capital Hanoi. And the industrial park is 220 kilometers from the Chinese border in Guangxi and Yunnan provinces.

The development of VCEP has been relatively complex. The project started in October 2008 and covers an area of 2 square kilometers with a total investment of 175 million USD. But the project stalled for undisclosed reasons. Until BRI was proposed in 2013, prompting renewed communication between the two governments promoting the project of this industrial park. The 2015 China-Vietnam Joint Statement explicitly mentioned the mutual support for the VCEP's construction. In the end, the project restarted on December 9, 2016<sup>188</sup>.

The VCEP focuses on the light industry sector, particularly electronics and electromechanical products. Its promotional materials highlight four types of target enterprises: (1) Enterprises with significant brand influence and scale in Shenzhen and the Pearl River Delta, aiming to upgrade technology and equipment through investment in Vietnam; (2) Enterprises exporting products to European, American, and Southeast Asian markets; (3) Enterprises providing industrial support to large companies in northern and central Vietnam; (4) Enterprises from Shenzhen and focus on the Sino-Vietnamese trade. As of November 2021, the park had attracted 32 manufacturing enterprises, with a total investment of approximately 470 million USD, of which around 460 million USD (97.87%) came from Chinese enterprises. The cooperation zone employs about 14,000 people, including over 500 Chinese employees<sup>189</sup>.

The advantages of the VCEP are mainly reflected in two aspects: (1) The industrial park benefits from Haiphong's location advantages and growth potential in the future. Location advantages refer to Haiphong's deep-water port and logistics center in northern Vietnam. The incredible potential for future development of the city means that Hai Phong is located in an area that is not only in the economic circle around the capital, which will be the focus of Vietnam's future development, but is also at the crossroads of Sino-Vietnamese co-operation plans (e.g., BRI, Two Corridors and

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<sup>188</sup> VCEP website, <http://www.vcep.net.cn>. Last visit 2025.01.10

<sup>189</sup> He Yong, "VCEP has become a benchmark project of BRI", *Shenzhen Special Zone Daily*, 2021.11.28

One Economic Circle strategy). (2) VCEP has gained more government support than LJIP. Not only did the Prime Ministers of China and Vietnam both attend the signing ceremony of the "VCEP Cooperation Agreement" in October 2008 but also listed the two countries the VCEP as one of the cooperation projects in the five-year China-Vietnam Economic and Trade Cooperation Development Plan (2017-2021) in November 2017<sup>190</sup>. This may be due to the fact that the investor of VCEP is a public enterprise from Shenzhen, so the Shenzhen government has proactively strengthened cooperation with the Haiphong government.

### **No. 3: Thai - Chinese Rayong Industrial Zone (TCR)**

The Thai-Chinese Rayong Industrial Park (TCR) project began in 2005 and has the certification of "Overseas Economic and Trade Cooperation Zone" in 2009, after the passing the Ministry of Commerce's assessment. The industrial park is located on the Eastern Economic Corridor of Thailand, just 27 kilometers from the Laem Chabang port and 99 kilometers from international airport Suvarnabhumi of Bangkok. Laem Chabang Port is the largest container port and logistics hub in Thailand and one of the busiest deep-water ports in the world, covering an area of over 10 square kilometers at the heart of Southeast Asia, offering significant advantages for international container transportation<sup>191</sup>.

TCR focuses on attracting Chinese enterprises in sectors such as automotive parts, machinery, household appliances, electronics, and hardware<sup>192</sup>. Its long-term goal is to be a hub for industrial clusters and a manufacturing export base, through integrating manufacturing, warehousing, logistics, and commercial and residential areas within the industrial park<sup>193</sup>. As of 2022, TCR hosts close to 170 factory projects from Chinese investors (some operating multiple factories) creating more than 45,000 jobs with a total industrial value of around USD 12 billion<sup>194</sup>.

TCR has three advantages: (1) Thailand's development potential is substantial, making it a preferred destination for many international investors. Among ASEAN countries, Thailand has experienced steady economic growth, presenting significant market potential. Furthermore, Thailand, located at the center of Southeast Asia, maintains good relations with major trade partners such as the U.S., Europe, Japan, and India, and the smooth flow of commodities to other ASEAN members. As a founding member of ASEAN, Thailand has attracted many foreign investors

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<sup>190</sup> Belt and Road Portal (Yidaiyilu), "Introduction of VCEP", <https://www.yidaiyilu.gov.cn/p/181088.html>. Last visit 2025.01.10

<sup>191</sup> TCR website, <http://www.sinothaizone.com/index.php>. Last visit 2025.01.10

<sup>192</sup> Ministry of Commerce of China, *Country (Region) Guide for Outbound Investment Cooperation – Thailand (2023)*, 2024.05, Document No. 00453, P27

<sup>193</sup> TCR website, <http://www.sinothaizone.com/about.php?cid=13>. Last visit 2025.01.10

<sup>194</sup> Introduction of TCR, <https://www.amata.com/?view=article&id=387&catid=84>. Last visit 2025.01.10

with its well-developed infrastructure, friendly investment environment, great market potential, political and social stability, and rich cultural heritage<sup>195</sup>. (2) Unlike the two China's overseas industrial parks in Vietnam, TCR was developed within an existing industrial park (Amata Industrial City), which is larger and have developed over a longer period of time It enabled China's overseas industrial park a faster development and enhanced operational capacity by full use of the infrastructure and services of Amata Industrial City. (3) The advantages of the industrial park investors. TCR is jointly developed by Amata Group from Thailand and Holley Group from China. Amata Group is a large industrial real estate developer in Thailand, with extensive experience in investment and operations of industrial park. The other investor, Holley Group, a company from Zhejiang Province, China, has a long-term investment in Thailand since 2000. It leads to Holley Group's deep understanding of the local investment environment and market<sup>196</sup>.

#### **No. 4: China-Indonesia Economic and Trade Cooperation Zone (KITIC)**

The China-Indonesia Economic and Trade Cooperation Zone (Kawasan Industri Terpadu Indonesia China, KITIC) is the first overseas industrial with certification of OETCZ in Indonesia. It is also the first overseas industrial park established by Guangxi Province. The project began in 2008 and passed the joint assessment by China's Ministry of Commerce and Ministry of Finance in August 2016<sup>197</sup>. The industrial park is located in the central area of the Jakarta-Bandung Economic zone, where is 60 kilometers from Soekarno-Hatta International Airport and 50 kilometers from Tanjung Priok.

KITIC focuses on industries such as agricultural processing, food processing, household appliances, fine chemicals, machinery manufacturing, transformers, and automobile assembly. By 2021, the total investment had reached 1.203 billion USD, with more than 4,000 employees. A total of 55 enterprises have entered KITIC, 28 of which are Chinese, with others from Indonesia, Japan, France, New Zealand, Finland, Malaysia, and other countries. Currently, 36 enterprises have completed factory construction and started production<sup>198</sup>.

The advantages of KITIC are mainly threefold<sup>199</sup>: (1) As the largest country in Southeast Asia, Indonesia has become more and more open to the foreign investments in the past few years. Indonesia has become one of the most attractive investment destinations among the ASEAN

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<sup>195</sup> Introduction of TCR, [https://www.holley.cn/en/industry\\_119.html](https://www.holley.cn/en/industry_119.html). Last visit 2025.01.10

<sup>196</sup> Xue Xiaoyu, "Introduction of TCR", *CPPCC Daily*, 2015.08.07

<sup>197</sup> KITIC website, <https://www.kitic.net>. Last visit 2025.01.10

<sup>198</sup> KITIC website, <https://www.kitic.net/enterprises.html>. Last visit 2025.01.10

<sup>199</sup> China Council for the Promotion of International Trade, "Introduction of KITIC", <https://oip.ccpit.org/ent/parks-introduces/68>. Last visit 2025.01.10

countries with huge market potential and preferential policies in terms of land purchase or lending, factory construction, tariffs and so on. Moreover, China and Indonesia have always been kept friendly political and economic relations. The cooperation between two countries has become even closer especially since the BRI in 2013, end in attracting more and more Chinese investment. (2) KITIC chooses the "Park-in-Park" model, the same as TCR. It means that KITIC can fully utilize the infrastructure and service of the existing industrial park (Greenland International Industrial Center at Kota Deltamas, GIIC), such as a one-stop service center, water plant, sewage treatment plant, gas station, schools (such as The Bandung Institute of Technology), residential areas, and recreational centers. (3) KITIC has developed a two-phase development plan. The first phase covers 2km<sup>2</sup>, focusing on attracting enterprises in agricultural processing, automotive parts manufacturing, machinery manufacturing, and building materials industries. The second phase also covers 2km, but focuses more on providing comprehensive functional support, such as the services in logistics, commercial, catering, and hotel services.

## **4.2 Sub-question One and Hypothesis**

### **4.2.1 Research on Overseas Industrial Parks' Investors**

Sub-question one focuses on the China's overseas industrial parks' investors. As mentioned earlier, theoretically, Chinese enterprises can reduce their overseas investment costs and risks through the infrastructure and services provided by overseas industrial parks. However, to achieve this goal, it is crucial to ensure that investors are sufficiently motivated to invest in these parks with feasible plan.

Currently, several favorable conditions exist for overseas industrial parks investment. (1) There is a large market demand. Chinese enterprises have a strong need for overseas investment, either to advance their internationalization or to further reduce costs. Therefore, there is a significant demand for overseas industrial parks which can lower investment costs and risks. (2) Encouragement from overseas industrial park policies such as the "OETCZ Policy". Investors can enjoy various policy benefits and support. More important, the policies reflect the Chinese government's continuous emphasis on and support for overseas industrial park, which boosts investors' confidence. (3) The host countries of China's overseas industrial parks are also highly welcoming to Chinese investment. Successful investment in the industrial parks can improve local infrastructure (such as roads and electrical power providing) and attract more Chinese enterprises' investment, promoting local industrial development and solving employment issues.

However, the investors also face several challenges, such as lack of experience in and the

substantial cost of construction and operation of the park. Moreover, most China's overseas industrial parks are located in developing countries, such as those in Southeast Asia and Africa. Some countries in these regions are not comprehensive and stable in political, economic and legal systems, resulting in the need for overseas industrial parks' investors to develop a more careful and comprehensive investment and development plan, in order to cope with the turbulence that may arise at any time.

#### **4.2.2 Defining the Question Scope**

Through literature review and author's preliminary observations, there are two interesting insights:

Insight One: The favorable conditions or benefits mentioned above (often highlighted in official and scholarly discourse) may not be enough to persuade investors. These conditions only represent potential benefits, but their realization remains uncertain. Compared to significant market demand (from Chinese enterprises and host countries) and substantial government support (such as high-level dialogues between Chinese and host country governments), what concerns investors more is finding a mature investment model that ensures the success of their investment and attracts more enterprises to enter the parks. This is the key factor in their decision to invest overseas or not.

Insight Two: Currently, most China's overseas industrial parks adopt the "Park-in-Park" investment model, where investors establish an approximately 2km<sup>2</sup> industrial park within an existing large-scale industrial park. This approach allows them to fully utilize existing infrastructure and services, further reducing the risks and costs of investing in overseas industrial parks and speeding up the construction process. The most representative examples are TCR and KITIC, which are mentioned above.

Thus, the author realizes that this "Park-in-Park" model may be the mature and highly successful investment model that overseas industrial parks' investors have been seeking. Consequently, during interviews, the author focused on figuring out, whether this investment model gave investor's confidence, whether is this the most crucial factor in investor's decision-making process, and whether China's overseas industrial park policies support and encourage this model. Therefore, the study takes the "Park-in-Park" investment model as the starting point. It will gain a better understanding of this model when compared with investors that don't adopt this model.

#### **4.2.3 Defining Sub-question One and Hypothesis**

As outlined above, the author takes the "**Park-in-Park**" investment model as the starting point to conduct research on overseas industrial parks' investors. This helps better define **Sub-question**

**One:** Does the "Park-in-Park" model contribute to the success of overseas industrial parks' investments? And the **Hypothesis:** The "Park-in-Park" model indeed significantly enhances the feasibility and success of overseas industrial parks' investments.

Based on this, the study attempts to understand the "Park-in-Park" model by comparing thoroughly different groups of research subjects. The subjects of this study, the four most representative overseas industrial parks in Southeast Asia, are contained by two industrial parks that have adopted the "Park-in-Park" model and the other two that don't have. This comparison between the two groups will contribute to a deeper understanding of the "Park-in-Park" model.

### **4.3 Sub-question Two and Hypothesis**

#### **4.3.1 Research on Enterprises within Overseas Industrial Parks**

Sub-question two focuses on the Chinese enterprises which enter in China's overseas industrial parks. The question is why these enterprises ultimately choose the park.

Currently, there are indeed many favorable conditions that help attract Chinese enterprises to enter in overseas industrial parks. The most appealing aspect is the policy emphasis on reducing the costs and risks of enterprises' foreign investment through these parks. This can help Chinese enterprises compensate for their lack of foreign investment experience, thereby facilitating their internationalization strategies more smoothly. Overseas industrial parks can contribute to this through the following ways: (1) Many parks provide information about the local investment environment or conditions, helping enterprises make more convenient, faster, and effective decisions on investment planning and site selection. (2) The one-stop services offered by the parks help accelerate the processing of formalities. (3) The parks can provide temporary standard factories for lease, enabling Chinese enterprises to start production until their own factories finish constructed. This means that the enterprises can start production and find local partners as possible as earlier. (4) A range of services provided by the parks helps enterprises establish better cooperation with local business partners and governments, thus avoiding misunderstandings due to cultural and language differences. Some well-developed overseas industrial parks, such as TCR can even provide more customized services.

However, China's overseas industrial parks also have some potential risks that may hinder the enterprises' investments. The most significant potential risk is that these parks are still in their early stages and lack sufficient experience in planning and operations. Although China's overseas industrial parks have great appeal to Chinese enterprises, the investors from Singapore and Japan

began their overseas industrial parks investments as early as the 1980s and 1990s, accumulated rich experience and formed a mature operational model.

### 4.3.2 Defining the Question Scope

The above mentioned provides a good research perspective: the correlation between Chinese enterprises' demand for overseas investment and the function of overseas industrial parks (the function that recognized or expected by enterprises).

The functions of overseas industrial parks are closely related to the enterprises' overseas investment needs. Only if the parks provide more targeted services can they attract more enterprises, achieving a true win-win situation. Because it creates a virtuous cycle between overseas industrial parks and Chinese enterprises, where enough enterprises entering the parks brings continuous revenue, enabling the overseas industrial parks' improvements in infrastructure and services.

Therefore, the starting point of the research in this chapter will be the alignment between the enterprises' investment needs and their perceptions (or expectations) of the functions of China's overseas industrial parks. Two more specific questions need to be answered: First, why do Chinese enterprises choose to invest overseas rather than in the inland regions of China? Second, for the enterprises already entered in the overseas industrial park, why do they choose this industrial park instead of choosing the other China's overseas industrial parks or the parks invested by Japanese and Korean companies?

Finally, the research for sub-question two becomes more specific and clear. It should start from two perspectives. **The first perspective** is to understand their investment needs by comparing their perceptions of investment in inland China and in overseas areas (i.e., Southeast Asia). Especially when both inland China and Southeast Asia have their own cost-reducing advantages, enterprises will think more carefully about making a decision that meets their most fundamental investment needs. **The second perspective** is to understand their investment needs through the decision-making process of choosing overseas industrial parks. Especially when they are faced with several China's overseas industrial parks with similar advantages, their hesitation in the decision-making process and the final decision can well reflect what kind of core functions they need from parks. Enterprises' perceptions or needs of the overseas industrial parks' functions are in fact the core needs of their overseas investment.

### 4.3.3 Defining Sub-question Two and Hypothesis

Based on the above analysis, the study focuses on the decision-making process of Chinese enterprises choosing China's overseas industrial park. It aims to identify the true needs of Chinese enterprises, especially through their perceptions or expectations of the functions of the chosen overseas industrial park, to better understand the most important factors for their overseas investment decisions.

The author defines **Sub-question Two**: Is the matching between the functions of overseas industrial parks and the overseas investment needs of enterprises the main criteria for choosing overseas industrial parks? And **Hypothesis**: The main reason lies in that their perceived (or expected) functions of overseas industrial parks satisfy their fundamental need to invest overseas.

Although the scope and hypothesis of sub-question two are clearly defined, there are two challenges in the specific research process: (1) How to identify the macro needs of Chinese enterprises entering in China's overseas industrial parks? It is a significant challenge. There are two representative thoughts, some believe the fundamental need is reduction of production costs, while others believe that the fundamental need is to lower the costs and risks of exporting products. Maybe the fundamental need in this study is completely different from the two mentioned above. (2) How to identify the most important specific need of Chinese enterprises entering in China's overseas industrial parks? Maybe the policy supports received by the overseas industrial park, or the Chinese-speaking environment provided by the park, or the ability of the park to better coordinate risk-sharing among enterprises, or others?

## 4.4 Sub-question Three and Hypothesis Three

### 4.4.1 Research on the Sustainable Profitability of Overseas Industrial Parks

Sub-question three focuses on sustainable profitability of overseas industrial parks, do they have already achieved sustainable profitability or how can they achieve this? If not, the development of China's overseas industrial parks will be short-term and easily replaced soon. Fortunately, although China's overseas industrial parks lack sufficient experience, their current development shows positive momentum, with more Chinese enterprises considering and wishing to enter in these parks.

Several favorable conditions contribute to sustainable profitability of overseas industrial parks: (1) Most host countries for overseas industrial parks have good economic and trade relations with China, especially ASEAN countries. As a result, overseas industrial parks in these countries receive

considerable support and understanding. Like BRI and the implementation of the RCEP agreement, ASEAN countries have shown a welcoming attitude towards Chinese investments, including investor of overseas industrial parks. Additionally, these countries are also interested in China's development model of special economic zones and the industrial parks, the host countries can also better understand this model through the closely observation of China's overseas industrial parks. (2) The demand for overseas investment by Chinese enterprises is growing, primarily due to rising domestic production costs and other considerations related to exporting, such as transportation, tariffs, and so on. Overseas investment, particularly in Southeast Asia, has become the preferred choice. Especially after the U.S.-China trade war and the U.S. efforts to decouple from China, many Chinese enterprises, especially the manufacturing enterprises, have been forced to consider investing abroad to mitigate risks. (3) Support from the policy. From a more macro perspective, the development of overseas industrial parks can help optimizing China's industrial structure and upgrading in the global value chains, so China will provide more sustained support to overseas industrial parks. (4) Although China's overseas industrial parks lack sufficient experience, industrial parks have developed in China for over 40 years (with the establishment of the Industrial Park in 1979 after the reform and opening up). Some successful parks in China have accumulated valuable experience in sustainable development, which can provide reference and inspiration for overseas parks to some extent.

However, there are also disadvantages: (1) The Conditions, regulations, laws, and systems in foreign countries differ significantly from those in China. Whether the experience of Chinese domestic parks can be directly applied to overseas industrial parks still needs to be proved in practice. (2) The lack of experience means that overseas industrial parks must explore various aspects of operations and management and continuous accumulation of experience, which inevitably increases costs and risks of investment. Maybe the actual investment will far exceed the investor's expectations at the beginning, resulting in the eventual failure of the investment of the overseas industrial park.

In conclusion, achieving sustainable profitability in industrial parks is not simple; it requires extensive observation and reference. The domestic industrial parks in China may provide inspiration, as many Chinese overseas industries have referred to the experience of domestic industrial parks from the beginning of construction and operation.

#### **4.4.2 Defining the Question Scope**

Sustainable profitability is crucial for overseas industrial parks, but sub-question three is difficult

to answer. One of the main reasons is that the development time of China's overseas industrial parks is too short, and the operators of these industrial parks lack relevant experience. At present, the only reference that can be provided is the experience of domestic industrial parks in China in achieving sustainable profitability.

The feasibility and significance of comparing domestic and overseas industrial parks lies in two aspects: (1) Through comparison, it helps define the industrial parks' main concerns in achieving sustainable profitability. For instance, both domestic and overseas parks have undergone similar development processes: initially, they focus on concentrating production factors to highlight low-cost advantages, and then, after a period of extensive development, they shift towards more targeted industrial clustering to achieve sustainable development. The common concerns between domestic and overseas industrial parks will be helpful. (2) Through comparison, it's better to figure out overseas industrial parks' different and unique features in achieving sustainable profitability. For example, the target clients of domestic and overseas parks are different. Domestic parks primarily aim to attract foreign enterprises, whereas China's overseas parks mainly focus on encouraging Chinese enterprises. This leads to differences in the functional positioning and planning of the parks. Moreover, the policy support available to Chinese domestic industrial parks is much greater than that to overseas industrial parks. It leads to overseas industrial parks having to seek other forms of support to compensate for the lack of policy support.

Based on this, this study attempts to conduct research by comparing the sustainable profitability of domestic and overseas industrial parks. Firstly, through comparison, people can better understand which experiences of domestic industrial parks in China can be borrowed by overseas industrial parks. Secondly, through comparison, people can better identify the unique characteristics of overseas industrial parks' sustainable profitability.

#### **4.4.3 Defining Sub-question Three and Hypothesis**

Based on this, the author defines **Sub-question Three**: Have China's overseas industrial parks found their own ways to achieve sustainable profitability? And **Hypothesis**: China's overseas industrial parks are quite clear about the ways to achieve sustainable profitability.

To better understand this of domestic industrial parks in China, the research selects two industrial parks in China: **the Suzhou Industrial Park (SIP) and Hangzhou High-Tech Zone (HTTZ)**, which represent two different approaches to achieving sustainable profitability. SIP is a joint venture between China and Singapore. HTTZ is a renowned high-tech industrial park that has achieved significant success through consistent focus on a single industry of cutting-edge technology.

Analyzing these two parks will help explore how sustainable profitability is achieved in China and identify the key factors of Chinese model.

## Chapter 5 Research on Overseas Industrial Parks' Investors

This chapter takes the "Park-in-Park" investment model as the starting point to study overseas industrial park investors. It aims to understand why many China's overseas industrial parks choose this model and whether this model contributes to the investment success. There is a favorable condition in the four research subjects: two have adopted the "Park-in-Park" model, while the other two have not. Based on this, the four industrial parks are divided into two groups, allowing for a comparative analysis that better clarifies the specific scope and conditions for using the "Park-in-Park" model. This understanding can help guide China's overseas industrial park policies to encourage investors to use this model more appropriately.

### 5.1 Domestic and Overseas Comparison of "Park-in-Park" Model

After a period of overseas industrial parks' development, Chinese scholars have noticed a common phenomenon: many parks have adopted the "**Park-in-Park**" model for their investments. Although the "Park-in-Park" model has not yet been fully defined as an academic term, it has been largely mentioned in numerous government and expert reports since the 1990s. Many investors, who have witnessed the success of this model in China, have applied it to overseas industrial parks. Indeed, this has enabled many investors to successfully complete their investments in overseas industrial parks. As a result, such successful investment cases increase the confidence of more overseas industrial park investors in this model, further promoting the implementation of overseas industrial park policies. The following sections provide a basic understanding and comparison of the characteristics of the "Park-in-Park" model and non- "Park-in-Park" model.

#### 5.1.1 Emergence and Description of the Model

##### "Park-in-Park" model in Chinese domestic industrial parks

The "Park-in-Park" model is a phrase commonly found in Chinese government documents and media, first appearing in the 1990s. However, there has been no unified concept or definition due to the numerous different cases and appearance. This variety leads to different functions and characteristics of "Park-in-Park" models, making it difficult to provide a general definition. However, two features are clear: (1) Essentially, the "Park-in-Park" model involves establishing a new subsidiary park within an existing industrial park (or economic development zone), and under the management of the existing industrial park. (2) One of the main functions of the new subsidiary park is to serve as a residential or functional area to the existing industrial park, thereby enhancing population density and improving the quality of life for park employees. It may also serve as a site

for a specific industry cluster, attracting related enterprises to enter in and then achieve industrial agglomeration. In summary, the "Park-in-Park" model in China emerged as a solution to enhance or adjust the existing industrial park which focused solely on production resource concentration, through enriching park functions and refining or adjusting the leading industries.

#### **"Park-in-Park" model in overseas industrial parks**

The most representative park is the Thai - Chinese Rayong Industrial Zone (TCR), which is jointly constructed by Holley Group from China and AMATA Group from Thailand within an existing industrial park in Rayong, Thailand. Especially after BRI was proposed in 2013, many overseas industrial parks adopted the "Park-in-Park" model, attracting the attention of Chinese scholars who regarded it as a key factor for successful overseas investments. After 2018, articles discussing the advantages and disadvantages of the "Park-in-Park" model began to appear frequently. For example, scholars such as Liang Yutian, Zhou Keyang, Zhang Jiayi, and Zeng Jiaqi described this model in detail: "During the operation stage, the newly built small park has independent management rights. However, since it benefits from the infrastructure and supporting services provided by the larger park (i.e., the existing park), the small park must pay for this. In this process, a cooperative relationship based on the "Park-in-Park" development model is formed between the large and small parks"<sup>200</sup>.

China's overseas industrial parks adopting the "Park-in-Park" model offer two functional advantages: (1) With the full use of the infrastructure provided by the local existing industrial parks, overseas industrial parks can significantly accelerate the construction process with lower-cost and put into operation quickly. (2) With the making full use of the services provided by and the agglomeration effects emerged in the local existing industrial parks, overseas industrial parks can be more attractive to Chinese enterprises' overseas investments.

#### **5.1.2 Similarities Between Domestic and Overseas Models**

Currently, there are similarities between the "Park-in-Park" models of domestic and overseas Chinese industrial parks. First, the variety of models makes it difficult to provide a clear definition of "Park-in-Park" Model. Second, the descriptions and functions are similar: both refer to establish a new park of roughly 2 km<sup>2</sup>, within or around an existing industrial park to complement and enhance industrial clustering or functional services (such as residential areas).

Additionally, there is a connection between the two models. The successful experience of the

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<sup>200</sup> Liang Yutian, Zhou Keyang, Zhang Jiayi, Zeng Jiaqi, "The development mode of 'Park-in-Park' in Overseas Economic and Trade Cooperation Zones and case study", *Scientia Geographica Sinica*, 2021, No.6, P980-988

domestic "Park-in-Park" model has been crucial for China's overseas industrial park investors, who are lack of and eager for the useful experience of industrial park investors. Although they cannot entirely replicate the domestic experience, it is already the most important reference experience they can have. These investors have deeper understanding of domestic model because they have witnessed the success of this model in China.

From a benefit perspective, the "Park-in-Park" model is advantageous for both industrial park investors and Chinese enterprises: (1) For investors, this model helps reduce infrastructure investment costs and refer to the successful experiences of existing parks in construction and operation. (2) For enterprises entering the parks, this model enables them to enjoy comprehensive investment services, such as one-stop services and financial loans. And they also can full use of the emerged agglomeration effects to promote their production and find suitable partners within the existing parks.

These benefits mentioned above are not immediately available in newly established, non- Park-in-Park overseas industrial parks.

### **5.1.3 Differences Between Domestic and Overseas Models**

There are differences between the domestic and overseas "Park-in-Park" models, because the domestic park and overseas park develop in different political systems, cultures, and societies. Comparing these differences helps people to better observe the advantages and disadvantages of the overseas "Park-in-Park" model. The differences primarily lie in their attributes and functions.

#### **Difference in Attribute**

In domestic industrial parks, there is a subordinate relationship between the main park and the subsidiary park (or the new park). The former provides resource support and has direct control over the latter in terms of development planning and management while offering some operational freedom to the subsidiary park.

In overseas industrial parks, however, there is no subordinate relationship between the existing park and the newly established park (i.e., China's overseas industrial park). Instead, there is a totally equally cooperative relationship. The existing park does not have to provide unconditionally resource support, and the newly established park does not need to provide functional additions which are entirely aligned with the existing park's planning and operations. To sum up, China's overseas industrial parks obtain infrastructure and service through the related payments, so they are not subordinate to the existing park.

## **Difference in Function**

The primary purpose of establishing subsidiary parks in Chinese domestic industrial parks is to improve or adjust the park's functions to meet new business needs. This is because, although Chinese domestic industrial parks have contributed to the rapid growth since 1979, they are sometimes unable to meet the needs of Chinese industries and enterprises in the 1990s. Therefore, Chinese industrial parks need subsidiary parks to serve two functions: (1) To serve as a functional area, such as residential area, administrative district, free trade zone and so on. This can provide additions to the existing parks' functions, thereby providing more comprehensive services to enterprises. So far, the following types of subsidiary parks as functional zones are more common: serve as high-end residential and consumption areas to attract talent; serve as an area to provide maintenance, renewal and upgrading services for the production machines; serve as training center for talents to cultivate and train high-quality skilled workers. (2) To serve as a cluster of a certain industry for agglomeration. The advantage of establishing a new sub-industrial park is that a more targeted plan can be developed around a specific industry or product at the beginning, which can improve the utilization of resources such as land and skilled personnel and ultimately increase the success rate of industrial clustering<sup>201</sup>. When the impact of this industrial agglomeration effect is large enough, this industry can even become core industry of the existing industrial park.

However, overseas industrial parks do not have the same function as Chinese domestic subsidiary parks, because their role is different. China's overseas industrial parks are not positioned as a subsidiary functional area of an existing industrial park, but rather to achieve ultimate profitability by serving Chinese enterprises investing overseas. Therefore, all the functions of overseas industrial parks will be centered around Chinese enterprises' overseas investment, rather than around existing industrial parks. To sum up, these functions, which are committed to reducing investment costs and risks, such as gathering production resources, improving infrastructure and providing quality services, will attract many enterprises to enter the industrial parks and bring large amount of profits.

### **5.1.4 Significance of the Model for Overseas Industrial Park Investors**

To effectively encourage the investors of overseas industrial parks, overseas industrial park policy needs to achieve the following two points. First, it needs to clarify to the investors about the

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<sup>201</sup> Long Tao, "Exploration of 'Park in Park' Model in Development Zones", *Journal of Business News*, 2019, No.10, P148-149

significant investment prospects and returns. Second, it needs to demonstrate the feasibility of this investment.

The investors are highly confident in their investment returns because the Chinese government has shown its strong attention through a series of concrete actions. Two representative events include the implement of the OETCZ policy in 2005 and increasing explicit support for China's overseas industrial parks during numerous high-level intergovernmental dialogues after BRI was proposed in 2013. In some cases, China has even signed agreements with foreign governments to promote cooperation on overseas industrial parks. Furthermore, investors can better understand how to profit and estimate investment returns, when the policy specifically describes the role of overseas industrial parks in reducing the cost and risk for enterprises' investments overseas.

However, the investors are not so sure about the investment feasibility because they lack a lot of experience in this field. And the current policy also doesn't make it clear to the investors how to enhance their feasibility. There are two main reasons for this. First, China's overseas industrial parks are spread across many different countries, each with unique investment environments and challenges. As a result, it is difficult to find a one-size-fits-all model of investment feasibility for the parks in different situations and countries. Second, the development period of overseas industrial parks has been relatively short, and their rapid development only began since BRI proposed in 2013. So many parks have been developing for around ten years at present, making it difficult to determine which investment models are genuinely successful and effective.

Therefore, it makes the study in this chapter significant because the "Park-in-Park" is currently the most popular investment model. It will help investors use this model more appropriately and well prepared in advance, if they can better understand the prerequisites and scope of application of this model through this study. Meanwhile, this study can help policymakers to make more rational, effective and targeted guidance on investment model, such as offering more cases of the most successful model. This is an important way to increase the investment feasibility for many Chinese investors who lack experience in overseas industrial park investment. Ultimately, the more successful this investment model becomes, the more it will encourage investors in overseas industrial parks.

## **5.2 Case of "Park-in-Park" Model in Thailand**

Thai - Chinese Rayong Industrial Zone (TCR) is one of the most representative examples of the "Park-in-Park" model. By fully understanding the development process of this industrial park, the "Park-in-Park" model can be better outlined and summarized.

### 5.2.1 Investment Environment in Thailand

Thailand is highly attractive to Chinese investors, primarily for three economic reasons: (1) Thailand is a core member of ASEAN providing a market with considerable purchasing power; (2) Thailand has a strategic position in international logistics; (3) Thailand has signed free trade agreements with countries such as China, the United States, the European Countries, Japan, India, Australia, and Bahrain, which enhance its connectivity with international markets. In 2021, the bilateral trade volume between China and Thailand reached 847.68566 billion RMB, the total amount of foreign direct investment in Thailand exceeded 640 billion THB, of which Chinese investment accounted for 38.567 billion THB, making China the second-largest source of investment<sup>202</sup>.

Another significant factor attracting investment to Thailand is the deep historical and cultural ties between the two countries. Thailand, which has the largest overseas Chinese community in the world, is friendly to Chinese investors.

Currently, a great potential cooperation lies in the fact that China and Thailand share many common goals and interests in future planning (China's BRI and Thailand's Eastern Economic Corridor strategy), and both governments are promoting investment in Thailand by Chinese companies especially high-tech companies. This makes Thailand's Eastern Economic Corridor (EEC) a major destination for Chinese investment, where TCR is located in. EEC of Thailand refers to establish a special economic zone along the southeastern coast by significantly improving infrastructure and implementing a series of investment incentive policies to attract foreign investment of high value-added industries. There is a lot of room for cooperation between EEC and BRI, just like Thai Deputy Prime Minister Somkid Jatusripitak once said, BRI aligns with EEC, as BRI enhances connectivity in infrastructure and logistics among countries and regions along the route, result in significantly boost Thailand's economic development<sup>203</sup>.

### 5.2.2 Existing Industrial Park in Thailand: AMATA Industrial Park in Rayong

TCR is located within the AMATA Industrial City in Rayong. The AMATA Group, established in 1989, operates five industrial parks in Thailand, Vietnam, and other countries. In Thailand, AMATA industrial parks rank first in terms of area, employment, and production value (the average annual production value is more than 40 billion USD, accounting for approximately 10% of Thailand's GDP). Among these, the AMATA Industrial Parks in Chonburi and Rayong, located within the EEC, cover

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<sup>202</sup> China Council for the Promotion of International Trade, "Introduction of TCR", <https://oip.ccpit.org/ent/parkNew/3060>. Last visit: 2025.01.16

<sup>203</sup> Xinhua News Agency, "Introduction of TCR", 2019.03.02, [http://www.xinhuanet.com/world/2019-03/02/c\\_1210071364.htm](http://www.xinhuanet.com/world/2019-03/02/c_1210071364.htm). Last visit: 2025.01.16

an area of 80 square kilometers in total. The enterprises that enter AMATA Industrial Parks include BMW, Bridgestone, Toyota, Mitsubishi, and other multinational corporations, with a total investment exceeding 350 billion THB (approximately 70 billion RMB)<sup>204</sup>.

The AMATA Industrial Park primarily provides multinational enterprises with a place to set up their overseas production factories in Thailand. The industrial park has advantages with its well-developed infrastructure and supporting functional areas, such as power plants, water plants, telecommunications companies, shopping centers, international schools, banks, hotels, apartments, and even golf courses. The park also offers services such as land leasing or purchasing, the sale and lease of factory facilities, tax and law consulting, and other services to improve operational efficiency such as one-stop service, vocational and technical training, property management, etc.<sup>205</sup>

In the long term, AMATA Industrial Park plans to develop in two directions. First, it aims to build "smart city" projects within the industrial park, to better align with Thailand's "Industry 4.0" strategy. For example, the park will introduce foreign enterprises whose productions are related to smart city projects, such as the industries in IT, renewable energy and high-end equipment. Another example is to develop a more intelligent planning and governance system, turning the park into an integrated modern urban area with production, research, financial and residential functions. Second, the industrial park will continue to bring in foreign enterprises related to Thailand's traditional advantage industries, such as rubber and agro-processing, by more professional services and a convenient investment environment.

### **5.2.3 Chinese Investor for the Overseas Industrial Park: Holley Group**

The Chinese investor for TCR is Holley Group from Hangzhou, China. The Holley Group, established in 1970, primarily production in the fields of pharmaceutical and electronic instruments. Around 2000, Holley Group began its overseas investment.

Initially, Holley Group had no plans to invest in overseas industrial parks. The original goal was to expand the international market for its main product of electric meters. In 2000, Holley Group established Holley Electric (Thailand) Co., Ltd. on the neighborhood of Bangkok, which was its first overseas subsidiary factory and one of the earliest Chinese manufacturing investments in Thailand.

In the process of expanding overseas markets, Holley Group gradually considered investing in

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<sup>204</sup> TCR website, <http://www.sinothaizone.com/about.php?cid=15>. Last visit: 2025.01.16

<sup>205</sup> Introduction of Amata Group, <https://www.163.com/dy/article/H2EA0KK60552E8YE.html>. Last visit: 2025.01.16

overseas industrial parks. This is mainly because its overseas subsidiary factory encountered a series of challenges. As Holley Group's Chairman Wang mentioned, Holley tried to invest in Thailand, Argentina and Africa at that time, but resulted in huge costs and painful lessons because the policies, laws and culture of these countries were very different from China. The Group even once began to question its decision of overseas investment<sup>206</sup>. Additionally, Holley Group noticed that many Chinese enterprises investing in Thailand faced similar issues, such as unfamiliarity with the local laws, regulations, cultural, and language, leading to obstacles or failures in the overseas investments. Recognizing this demand, Holley Group decided to invest an overseas industrial park in Thailand to provide a better and familiar investment environment to these enterprises.

Driven by this market demand, Holley Group has begun to build an industrial park that can provide Chinese enterprises with one-stop services and co-ordinate the co-operation between Chinese enterprises in Thailand, so as to reduce the initial costs and risks of Chinese enterprises' overseas investment. For Holley, not only can they gain the profits in the process, but also help Chinese enterprises to integrate into the local society as soon as possible and accelerate the construction of the overseas supply chain.

#### **5.2.4 Establishment of TCR**

During interviews, Interviewees from the Holley Group explained that when the decision was made to establish the overseas industrial park, they drew on the successful experience of Chinese domestic industrial parks about the positioning of industrial cluster. Then their first efforts focused on identifying suitable industries for their park, which not only belong to China's traditional advantageous industries but also could be clustered and welcomed in Thailand. In short, they regarded overseas industrial parks as "industrial Chinatowns"<sup>207</sup>.

In the selection of a suitable location for an overseas industrial park, Holley Group has determined to cooperate with AMATA. Two sides agreed to establish this industrial park inside the AMATA Industrial Park in Rayong.

According to author's interview, the mainly reasons for the collaboration were: (1) Holley Group's first overseas factory in Thailand was located within AMATA's industrial park in Chonburi, so the two had already established contact and cooperation since 2000. (2) Despite the great market demand, Holley Group faces a great risk in establishing the park because they are very inexperienced in industrial park construction, not to mention how difficult it is to build an overseas

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<sup>206</sup> Yi Nan, "Introduction of TCR", *China Pictorial*, 2021.09.23

<sup>207</sup> *ibid*

industrial park. They needed to find a partner, whom they knew well and specialized in this field, so they chose AMATA Group, Thailand's largest industrial park investor. (3) AMATA Group is also aware of the increasing willingness of Chinese enterprises to invest in Thailand encouraged by the growing co-operation between China and Thailand. Therefore, AMATA Group believes that it is necessary, promising, and profitable to jointly establish an industrial park by Chinese and Thai enterprises, through which can better highlight the Thailand's advantages in terms of production costs, logistics, and tax, ending in better attract more Chinese enterprises enter in.

Moreover, there was a great opportunity for establishing the park, that was the support from both governments. On July 1, 2005, the 30th anniversary of the establishment of diplomatic relations between China and Thailand, a memorandum of cooperation for TCR was signed in Beijing, marking the official launch of the overseas industrial park project.

### **5.3 Case of "Park-in-Park " Model in Indonesia**

#### **5.3.1 Investment Environment in Indonesia**

Indonesia is highly attractive to Chinese investors. As the largest ASEAN country and the only ASEAN member with a GDP exceeding one trillion dollars, Indonesia has always been an important partner for China. The economic advantages include: (1) abundant natural resources, such as palm oil, rubber, oil, natural gas, coal, and tin<sup>208</sup>; (2) the different stages of industrialization between China and Indonesia, leading to the complementarity in many industries of both sides, especially manufacturing like textiles, electronics, machinery, chemicals, and rubber processing. Indonesia actively welcomes Chinese investment to promote its industrialization. Chinese enterprises have already made significant investments in Indonesia, spanning agriculture, mining, power, real estate, manufacturing, industrial parks, digital economy, and finance. For example, Tsingshan Group has built the world's longest stainless-steel production base in Indonesia; Hongqiao Group has invested the Southeast Asia's largest smelter-grade alumina plant in Indonesia's; Xiaomi, OPPO, and VIVO have become major smartphone brands in Indonesia<sup>209</sup>. (3) China and Indonesia have long-term infrastructure cooperation projects. Chinese enterprises have been actively involved in building power stations, highways, bridges, and dams in Indonesia. The most representative project is the Jakarta-Bandung high-speed railway, which operates after October 2023. It is Indonesia's as well as Southeast Asia's first high-speed railway, which the first one built by Chinese enterprises

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<sup>208</sup> Ministry of Commerce of China, *Country (Region) Guide for Outbound Investment Cooperation: Indonesia (2023)*, 2024.05, Document No.00459, P12

<sup>209</sup> *ibid*, P3

overseas<sup>210</sup>.

Additionally, there are many non-economic factors favorable to Chinese investors. (1) As the largest economy in ASEAN and a key member of the G20, Indonesia plays a vital role in regional and international affairs, such as promoting ASEAN integration. China has always supported ASEAN integration such as RCEP, making both countries reliable partners with shared interests in Southeast Asia. (2) Indonesia has a large Chinese or Chinese-descendant population, accounting for about 5% of the total population. The local Chinese community offers significant support to Chinese enterprises<sup>211</sup>.

The most favorable factor for investing in Indonesia is BRI, which was introduced in 2013, as Indonesia is the most important partner for China in BRI. President Xi Jinping first proposed the 21st Century Maritime Silk Road (stand for the “R” of BRI) during his visit to Indonesia in October 2013. Since then, bilateral relations between China and Indonesia developed to a comprehensive strategic partnership. Both governments have made efforts to strengthen economic and trade cooperation, enhancing the confidence of Chinese enterprises in investing in Indonesia. Since 2016, China has remained Indonesia's largest export destination. In 2022, the bilateral trade volume between China and Indonesia reached 149.09 billion USD<sup>212</sup>.

### **5.3.2 Existing Industrial Park in Indonesia: GIIC**

The China-Indonesia Economic and Trade Cooperation Zone (Kawasan Industri Terpadu Indonesia China (KITIC)) is located within the Greenland International Industrial Center at Kota Deltamas (GIIC) in Indonesia<sup>213</sup>. GIIC, established in the late 1990s jointly by Japanese and Indonesian companies, is 37km from Jakarta. It aims to attract Japanese manufacture enterprises in the production of automotive parts, home appliances, and daily necessities, to invest in Indonesia. GIIC covers an area of 22km<sup>2</sup>, consists of industrial and residential-commercial areas<sup>214</sup>.

The main feature of the GIIC is the professional industrial supports and services<sup>215</sup>. In terms of infrastructures, the park has its own water plant, sewage treatment plant, gas stations, etc., similar to those in AMATA Industrial Park in Rayong, Thailand. More importantly, the park has well-developed facilities for production, living and commercial purposes, such as a one-stop administrative center, housing facilities, education, and shopping centers.

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<sup>210</sup> *ibid*, P4

<sup>211</sup> *ibid*, P14

<sup>212</sup> *ibid*, P26

<sup>213</sup> Introduction of KITIC and GIIC, <https://asiatimurassets.com/homepage/industrial/giic>. Last visit: 2025.01.16

<sup>214</sup> GIIC website, <https://deltamas.id/en/company-overview>. Last visit: 2025.01.16

<sup>215</sup> *ibid*

### 5.3.3 Chinese Investor for Overseas Industrial Park: Guangxi State Farms Group

KITIC is invested by Guangxi State Farms Group. Guangxi State Farms Group, established on October 15, 1997, is one of China's leading agricultural enterprises, focusing on the cultivation and breeding of crops, forestry, animal husbandry, and fishery, along with the processing, wholesale, and retail of related products. The group has total assets of 54.44 billion RMB (\$8.1 billion), with three key national enterprises in agricultural industrialization, ten leading enterprises in Guangxi, two Guangxi billion-yuan industry R&D centers, a national exemplary vocational college, and a national key laboratory.<sup>216</sup>

Notably, the process by which Guangxi State Farms Group established the overseas industrial park differs from that of Holley Group's investment in Thailand. Holley Group discovered the opportunity for investing overseas industrial park during its process of expanding overseas production and market. In contrast, Guangxi State Farms Group invested in overseas industrial park mainly encouraged by the OETCZ policy in 2005. They chose to invest in Indonesia because of its rich agricultural resources, aligning with the group's core business. In September 2007, KITIC became one of the first 19 overseas industrial parks approved by Chinese government with the certification of OETCZ.

### 5.3.4 Establishment of KITIC

After deciding to invest in an overseas industrial park, Guangxi State Farms Group chose to establish its overseas industrial park inside GIIC. Because they believed this can accelerate the construction process and attracted more Chinese enterprises with high-quality services.

To be specific, there are three main benefits for this location selection. First, the existing park, GIIC, located in the center of Industry and economy of Indonesia, i.e., the Jakarta-Bandung economic corridor in East of Jakarta. This industrial corridor includes seven large modern industrial parks established by China, Indonesia, Korea, Japan, and other countries, with numerous enterprises including Toyota, Honda, Samsung, LG, Komatsu, Sany, Indofood, Maspion and so on<sup>217</sup>. Moreover, this location enjoys convenient transportation to the capital city of Indonesia and the Jakarta International Airport and port.

Second, there are many Chinese or Chinese-descendant population around this area. These population in Indonesia are more familiar with local land policy and have rich business experience,

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<sup>216</sup> Guangxi Province Government, "Introduction of Guangxi State Farms Group", [http://en.gxzf.gov.cn/2020-01/22/c\\_448488.htm](http://en.gxzf.gov.cn/2020-01/22/c_448488.htm). Last visit: 2025.01.16

<sup>217</sup> Research Institute of China Council for the Promotion of International Trade, *2018 Investment Guide for Overseas Economic and Trade Cooperation Zones*, 2018.11, P64

so they can provide more suggestions and cooperation to China's overseas industrial park and Chinese enterprises, which will make their investment smoother. A representative case is that an overseas Chinese has played an important role in promoting the co-operation between Guangxi State Farms Group and GIIC, because he is one of the shareholders of GIIC from Indonesian side. With his efforts, KITIC can finally realize the "Park-in-Park" investment model<sup>218</sup>.

Third, China's industrial parks can fully enjoy the advantageous services of the existing industrial park. The most representative is the purchase and lease of land. Buying or leasing land directly from residents or local governments is not only a cumbersome process, but also prone to misunderstandings and disputes. On the contrary, the existing industrial park, GIIC, as an infrastructure and service provider that will simplify these processes as much as possible to meet the needs of Chinese investor for the land.

In October 2007, at the 4th China-ASEAN Expo, the co-operation partners from China and Indonesia signed an agreement about the construction of KITIC. The park was the first Chinese Overseas Economic and Trade Cooperation Zone in Indonesia and was approved by the Ministry of Finance and the Ministry of Commerce for official certification in 2016.

## 5.4 Case of "Non-Park-in-Park" Model in Vietnam

The two overseas industrial parks are **Longjiang Industrial Park (LJIP) in Vietnam and China-Vietnam Economic and Trade Cooperation Zone (VCEP)**. It is interesting to note that neither of these two industrial parks has adopted "Park-in-Park" model. Therefore, a full understanding of these two parks helps further compare the Park-in-Park model with the "Non-Park-in-Park" model.

### 5.4.1 Investment Environment in Vietnam

Vietnam is highly attractive to Chinese investors. From an economic perspective<sup>219</sup>: (1) China and Vietnam have signed several trade and investment agreements. In October 2011, both countries signed the "Five-Year Plan for China-Vietnam Economic and Trade Cooperation"; in October 2013, they signed a "Memorandum of Understanding on the Development of Cross-border Economic Cooperation Zones"; in September 2016, they signed a "Supplementary and Extension Agreement to the Five-Year Development Plan for China-Vietnam Economic and Trade Cooperation" and re-signed the "China-Vietnam Border Trade Agreement"; in November 2017, they signed an agreement to connect the "BRI" with Vietnam's "Two Corridors and One Economic Circle"

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<sup>218</sup> Guangxi Daily, "Introduction of KITIC", 2014.08.18

<sup>219</sup> Ministry of Commerce of China, Country (Region) Guide for Outbound Investment Cooperation: Vietnam (2023), 2024.05, Document No.00460, P34-35

development strategy; in September 2021, they signed a "Memorandum of Understanding on Establishing a China-Vietnam Trade Facilitation Working Group." Currently, the two governments are developing an implementation plan for the alignment of the BRI with the "Two Corridors and One Economic Circle" strategy. (2) The two countries are long-term important economic partners. China has been Vietnam's largest trading partner, the largest import market, and the second-largest export market for many years, playing a crucial role in Vietnam's international trade. Vietnam is China's largest trading partner in ASEAN and one of its top ten global trade partners. Chinese investment in Vietnam is mainly concentrated in the fields of processing and manufacturing, real estate, and electricity production, etc. According to Chinese customs statistics, the bilateral trade volume between China and Vietnam reached 234 billion 920 million USD in 2022, with China exporting 146 billion 960 million USD to Vietnam and importing 87 billion 960 million USD from Vietnam.

From a non-economic perspective, the investment advantages include: (1) Close geographical location. Vietnam borders China's Guangxi and Yunnan provinces, with many border cities sharing similar cultures and lifestyles. (2) China and Vietnam established diplomatic relations in January 1950, and both countries have maintained long-term, continuous communication in politics, economy, trade, diplomacy, and security. Particularly, the leaders of China and Vietnam have maintained frequent visits and contacts, such as the visit of Vietnam's President to China in August 2024. (3) Vietnam is home to a large Chinese community, with approximately 890,000 ethnic Chinese, mainly in cities like Ho Chi Minh City and Haiphong. Ho Chi Minh City has the largest concentration of overseas Chinese<sup>220</sup>.

Moreover, the most important factor is that the Vietnamese government has maintained a welcoming attitude toward foreign investment over the past few decades, making Vietnam a popular destination for many foreign enterprises, including those from China. Since implementing the "Renovation (Doi Moi)" policy in 1986, Vietnam has become increasingly integrated into the international market, providing comprehensive legal protections and substantial incentives for foreign investors. After joining WTO in 2006, Vietnam has focused on integrating into the international economic system, actively adjusting and improving laws and regulations, and continuously enhancing the legal environment. Vietnam has signed 15 free trade agreements, 14 of which have come into effect, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the Vietnam-EU Free Trade Agreement, and the Vietnam-Eurasian Economic Union Free Trade Agreement. Vietnam is currently negotiating free trade agreements with the

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<sup>220</sup> *ibid*, P12

European Free Trade Association, including Switzerland, Norway, Iceland, and Liechtenstein, and the FTA with Israel. According to The Economist, since 1990, Vietnam's per capita growth rate has risen to the second highest in the world, second only to China<sup>221</sup>.

#### **5.4.2 Establishment of the Overseas Industrial Parks in Vietnam**

The development of two overseas industrial parks in Vietnam is closely tied to China's overseas industrial parks policy. However, there are some differences in the development process.

Longjiang Industrial Park (LJIP) has developed relatively smoothly. After China's overseas industrial park policy was introduced in 2005, Mr. Wen, a Chinese businessman from Zhejiang province and conducted business in Ho Chi Minh City for 20 years, jointly established an investment company for LJIP with other two Chinese enterprises. This was the first large-scale Chinese-funded industrial park project in Vietnam, receiving strong support from the governments of both countries<sup>222</sup>. The park's construction officially began in May 2008 and was approved by the Ministry of Finance and the Ministry of Commerce for official certification of OETCZ in July 2011.

However, China-Vietnam (Shenzhen-Haiphong) Economic and Trade Cooperation Zone (VCEP) developed less smoothly due to replacement of the investor during the process. (1) The first phase of investment process is from 2008 to 2016. Encouraged by overseas industrial park policy and the great potential in production and international trade in Vietnam, ten enterprises from Shenzhen, China, registered an investment company in Vietnam for VCEP<sup>223</sup>. But some years later, it stagnated. The reasons for this were not disclosed, and even during interviews, the author could not obtain specific reasons.

(2) The second phase of investment process began in August 2016, when the project of VCEP restarted. The most critical factor was the substantial support from both governments. In November 2017, both sides had signed a memorandum of understanding about the *Key Projects in the China-Vietnam Economic and Trade Cooperation (2017-2021)*, in which the overseas industrial parks were regarded as one of the priority projects<sup>224</sup>.

Ultimately, a new investment company, invested by Shenzhen Investment Holdings Co., Ltd., was registered in Vietnam for VCEP. The company is responsible for planning, construction,

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<sup>221</sup> *ibid*, P3

<sup>222</sup> China Council for the Promotion of International Trade, "Introduction of LJIP", <https://oip.ccpit.org/ent/parks-introduces/76>. Last visit: 2025.01.16

<sup>223</sup> Introduction of VCEP, <https://www.chinanews.com/cj/hgjj/news/2008/04-07/1213746.shtml>. Last visit: 2025.01.16

<sup>224</sup> Belt and Road Portal (Yidaiyilu), "Introduction of VCEP", <https://www.yidaiyilu.gov.cn/p/181088.html>. Last visit 2025.01.10

management, and providing comprehensive supporting services for enterprises entering the park<sup>225</sup>. Shenzhen Investment Holdings Co., Ltd., founded in 2004, has a total asset around 880 billion RMB, with over 210 billion RMB in operation income and 30 billion RMB in annual profit<sup>226</sup>. As an investor for the overseas industrial park, SIHC has its greatest advantages in two terms: (1) It has sufficient funding which is crucial for the long-term and large-scale investment requirement of the overseas industrial park. (2) It has rich experience in developing and operating industrial parks in Shenzhen, which can be helpful for the overseas parks. After taking over, VCEP completed the first phase of infrastructure construction at the end of October 2017, with a total investment of 175 million USD<sup>227</sup>.

### 5.4.3 Comparison Between the Two Parks in Vietnam

Compared to the "Park-in-Park" model, the biggest disadvantage of the "Non-Park-in-Park" model is that it cannot rely on the infrastructure and services of the existing industrial park. This leads to higher demands on investors of "Non-Park-in-Park" model: they must choose the most suitable location (with low costs but favorable for Chinese overseas investment) and have strong operational capabilities to provide high-quality services to enterprises.

With the observation of the two industrial parks in Vietnam, their selection of location is in common. In other words, they share the same selection criteria: to find a place where is close to an important and large city in Vietnam, but also has a low level of industry and land costs.

The location of **LJIP** reflects this criterion above. (1) It is close to Ho Chi Minh City, Vietnam's traditional economic center with the country's largest port. This allows the industrial park to benefit from the city in three terms: good transport infrastructure, sound economic and financial services, and a population center (i.e., Ho Chi Minh City has around 500,000 overseas Chinese in Vietnam)<sup>228</sup>. (2) The specific location of the Industrial Park is in Tien Giang Province, 50 km away from Ho Chi Minh City, where is within one hour's drive to City district, Tan Son Nhat International Airport, and Hiep Phuoc Container Port<sup>229</sup>. The prices of raw materials, wages and land will be relatively low because of the low level of industrialization in this location.

The location of **VCEP** reflects this criterion above. (1) It is close to Hanoi, the capital city of Vietnam, and Hai Phong, the third largest city in the country. The industrial park can take full advantage of

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<sup>225</sup> Introduction of VCEP, <http://www.vietchina.org/yngyq/6957.html>. Last visit: 2025.01.16

<sup>226</sup> SIHC website, <https://en.sihc.com.cn/sihc-en/about-en/about-company/index.html>. Last visit: 2025.01.16

<sup>227</sup> Introduction of VCEP, [http://www.gov.cn/xinwen/2016-12/13/content\\_5147189.htm](http://www.gov.cn/xinwen/2016-12/13/content_5147189.htm). Last visit: 2025.01.16

<sup>228</sup> Ministry of Commerce of China, Country (Region) Guide for Outbound Investment Cooperation: Vietnam (2023), 2024.05, Document No.00460, P13

<sup>229</sup> LJIP website, <http://ljip.vn/web/en>. Last visit: 2025.01.10

the infrastructure and convenient transport conditions around these two cities. What's more, the potential of this location is huge, as Vietnam has developed a number of plans in recent years to develop the capital city's economic circle<sup>230</sup>. (2) The specific location of the Industrial Park is in An Duong district, next to Hai Phong City. Just like the Tien Giang Province (where LJIP is located), An Yang District with lower industrialization also has lower price for land, labor and raw material. More important, it is not only close to the largest deep-water port in the northern region of Vietnam, but also has direct access to the Sino-Vietnamese border by land route, which greatly improves the ease of logistics.

## 5.5 Research Design for Sub-Question One

Chapters 5 to 7 have formed the interviewees and interview questions based on sub questions 1, 2, and 3. Finally, in Chapter 8, all interview questions will be organized according to the interviewee group, with a complete itinerary of interview questions.

The research on sub-question 1 will be based on the interview with three targeted groups. (1) Investors and operators of four studied overseas industrial parks in Southeast Asia, which is the primary interview subject for sub-question one. (2) The members from Chinese chamber of commerce near these four studied overseas industrial parks. These members are experienced entrepreneurs who have engaged in long-term business and investment activities abroad, often with 10-30 years of overseas investment experience. Their insights will help further understand the feasibility and prospects of the investment of China's overseas industrial parks. (3) Chinese scholars or officials in this field. This helps clarify their understanding of the "Park-in-Park" model from a policy-making perspective.

The interview questions for sub-question 1 are formed as follows.

Chapter 5	Respondents and Questions
Question 1-10	<b>Investors and Operators of Overseas Industrial Parks</b>
	Q1: Self-introduction and description of the overseas industrial park investment process. Q2: Detailed introduction about the investors. Q3: What are the reasons and confidence behind investing in overseas industrial parks? For example, market demand or policy incentives? Q4: What are the main reasons for choosing the "Park-in-Park" model or the "

<sup>230</sup> China Council for the Promotion of International Trade, "Introduction of VCEP", <https://oip.ccpit.org/ent/parks-introduces/80>. Last visit: 2025.01.10

	<p>Non-Park-in-Park" model?</p> <p>Q5: How has the chosen model helped during the construction process?</p> <p>Q6: How has the chosen model helped during the operation process?</p> <p>Q7: What is the biggest challenge of the chosen model? Is it unique to the "Park-in-Park" model or the " Non-Park-in-Park" model?</p> <p>Q8: So far, how would you comprehensively evaluate the model you have chosen?</p> <p>Q9: What is the impact of Chinese policies and initiatives (such as OETCZ policy, BRI, etc.) on overseas industrial park investment?</p> <p>Q10: When choosing a model, were investors influenced by external factors such as the local investment environment, the degree of internationalization of nearby cities, or transportation accessibility? How significant was this influence?</p>
Question 11-13	<p style="text-align: center;"><b>Members from Chinese Chamber of Commerce near Overseas Industrial Parks</b></p> <p>Q11: Introducing your overseas investment experience.</p> <p>Q12: Based on your experience, how would you evaluate the advantages and disadvantages Chinese investors face locally? What are the differences between enterprise investment and overseas industrial park investment?</p> <p>Q13: Have Chinese policies and initiatives (such as OETCZ policy, BRI, etc.) significantly promoted investment in China's overseas industrial parks?</p>
Question 14-15	<p style="text-align: center;"><b>Chinese Scholars or Officials in this Field</b></p> <p>Q14: Can overseas industrial parks help China upgrade its position in the global value chain?</p> <p>Q15: Can the "Park-in-Park" model enhance investor confidence and success rates in overseas industrial park investment?</p>

## **Chapter 6 Research on Chinese Enterprises within Overseas**

### **Industrial Parks**

Overseas industrial parks and Chinese enterprises are closely interconnected. Chinese enterprises hope that these overseas parks can help them reduce the costs and risks associated with overseas investments. On the other hand, overseas industrial parks need more Chinese enterprises to enter in the park, ensuring the sufficient funds for normal operation of the park. This chapter focuses on the question: What exactly are the main reason for Chinese enterprises entering in overseas industrial parks? The paper believes that the main reason Chinese enterprises entering in China's overseas industrial parks is that their perceived (or expected) functions of parks satisfy their fundamental need to invest overseas. To examine this idea, this chapter will focus on what the enterprises in the four overseas industrial parks (the research subjects of this paper) perceive the function of the industrial parks.

#### **6.1 Research Questions and Research Objects**

The research subjects of sub-question two are the Chinese enterprises within the four representative industrial parks in southeast Asia. This chapter examines whether the parks' functions that perceived (or expected) by Chinese enterprises align with their overseas investment needs.

##### **6.1.1 Identifying the Overseas Investment Needs of Chinese Enterprises**

The biggest challenge is how to further identify the primary needs for Chinese enterprises' overseas investments. The chapter tries to start the research from two perspectives.

The first perspective is to understand their investment needs by comparing their perceptions of investing in inland China and in overseas (i.e., Southeast Asia). This perspective hopes to take a macro view of what overseas investment means to enterprises and thus answer the question of why they are investing in Southeast Asia rather than in the inland China. Especially when both inland China and Southeast Asia have their own cost-reducing advantages, enterprises will think more carefully about making a decision that meets their most fundamental investment needs.

The second perspective is to understand the investment needs through the decision-making process of Chinese enterprises in choosing overseas industrial parks. This perspective wants to understand what these enterprises really want from an overseas industrial park from a micro perspective. Especially when they are faced with several China's overseas industrial parks with

similar advantages, their hesitation in the decision-making process and the final decision can well reflect what kind of core functions they need from parks. Enterprises' perceptions or needs of the overseas industrial parks' functions are in fact the core needs of their overseas investment.

Ultimately, with these two perspectives, it becomes possible to fully understand which functions of China's overseas industrial parks are most important to Chinese enterprises. This can help China's overseas industrial park policies to be further promoted to highlight these functions, thereby providing more targeted services and support to Chinese enterprises for overseas investment.

### **6.1.2 Decision-Making Process for Investment in Inland China vs. Southeast Asia**

Comparing investment in inland China and in Southeast Asia. From the perspective of industrial transfer, Chinese enterprises face a similar situation to that of the Four Asian Tigers in the 1970-80s: need to transfer existing industries to lower-cost regions due to the rising production and trade costs. But, unlike the Four Asian Tigers, China has vast inland areas that can also offer cheaper labor, raw materials, and land prices compared to coastal regions. Therefore, export-oriented manufacturing enterprises in China's southeastern coastal regions face the choice of whether to transfer production to inland regions or to Southeast Asia.

This comparison will be detailed in section 6.2. Briefly, while both inland China and Southeast Asia offer advantages in production costs, each has unique advantages. The benefits of investing in inland areas include: (1) Potentially great return on investment. After BRI proposed, China has been committed to promote economic corridors between its inland regions and Central Asia, and even extending the corridors to the European market. If such corridors are realized in the future, investments in the inland areas will yield substantial returns. (2) Investing in inland regions can avoid many unknown risks caused by cultural and institutional differences, because Inland region and coastal areas in China share the same language, laws, and governance systems. On the contrary, investment in Southeast Asia will face a lot of uncertainty, Chinese enterprises not only are unfamiliar with the language and culture of these countries, but also have to face the uncertain risk of the political, legal, and economic system in developing countries.

The advantages of investing in Southeast Asia include: (1) Significantly lower logistics costs. Southeast Asia is a major hub for international logistics, resulting in much lower export transportation costs than in inland China. (2) More importantly, Southeast Asian countries have good relations with Western markets and have signed many trade agreements in recent years. Meanwhile, China faces challenges in export markets, such as the U.S.-China trade war and the U.S.'

efforts to decouple from China. Thus, investing in Southeast Asia help Chinese enterprises to better circumvent trade barriers.

However, this presents a challenge for Chinese enterprises in making decisions about where to transfer, as both options have their advantages. This chapter attempts to better understand their decision-making process by fully consideration of the characteristics of Chinese enterprises. In literature and interviews, the author found that most of these enterprises are manufacturing enterprises from China's coastal areas, which are mainly engaged in export. Thus, their primary goal of industrial transfer is to address the current issues (such as increasing production cost) rather than considering long-term issues (such as expanding overseas markets).

In summary, based on the perspective of the current issues (such as increasing production cost), the above two types of industrial transfers have their own advantages. The advantage of investing in inland regions is that local governments may replicate the successful practices of local governments in coastal area China, i.e., focus on providing sufficient policy support to concentrate local production resources, further highlighting the advantage of lower costs. The advantage of investing in Southeast Asia is that it can further reduce international trade costs and risks because these countries are not only the transportation hubs for international logistics but also have signed a series of agreements promoting international trade with Western countries in recent years. This chapter seeks to understand the impact of these two cost-reducing advantages on enterprises' investment decisions.

### **6.1.3 Decision-Making Process of Chinese Enterprises Selecting Industrial Parks**

The research subjects in this chapter are enterprises that ultimately chose to enter in the China's overseas industrial parks. The research tries to understand why these enterprises finally chose the current industrial park and what ultimately drove their decision. The perspective one above is insufficient to explain this, so further investigation into the most critical factors influencing Chinese enterprises' overseas investment decisions is needed.

The perspective two focuses on Chinese enterprises that have already decided to invest overseas. They face a series of questions, the most important of which is whether to invest in a China's overseas industrial park and which one to choose finally. This is a challenging decision-making process for Chinese enterprises: (1) Chinese enterprises lack experience in overseas investments; (2) China's overseas industrial parks lack experience in overseas investments and operations, leading to various actual problems. The most representative is that many industrial parks can only provide similar basic infrastructures and services, leading to homogenized competition and price

wars among these industrial parks; (3) Compared to China's overseas industrial parks, those established by enterprises from Singapore, Japan, and South Korea have longer development periods and more experience, offering more specialized infrastructure and services for production and financial services. Moreover, there are many successful multinational enterprises inside these parks, who will be the most suitable potential partner for Chinese enterprises. (4) Many Chinese enterprises can negotiate directly with local governments for investments and factory construction, potentially gaining more targeted support and preferential policies.

Therefore, perspective two tries to find out the answer from the decision-making process of Chinese enterprises when choosing overseas industrial parks. During interviews, enterprises indicated that their biggest challenge was to choose one of many China's overseas industrial parks which have the similar advantages. The more enterprises struggle to make choices among similar parks, the more this reflects the key factors in their overseas investments. For the enterprises, their choice is based on their perception of the current or future functions of the parks, which reflects their core investment need.

#### **6.1.4 Impact of China's OETCZ Policies on Chinese Enterprises Investments**

China's OETCZ policies have significantly impact on Chinese enterprises' overseas investments, as the function of China's overseas industrial parks are defined or guided by these policies. When the defined functions meet the primary needs of Chinese enterprises' overseas investments, more enterprises will choose to enter in these parks. When this doesn't happen, it means that the policy needs to be improved, adjusting the functions of the parks to meet enterprise needs.

However, the functions and positioning of overseas industrial parks are still relatively vague, as China's overseas industrial parks have only been developing for nearly 20 years, with rapid development after the BRI was proposed in 2013. Therefore, the actual still need more observations.

To better observe this, this chapter divides Chinese enterprises' overseas investment needs into short-term and long-term, corresponding to the functions China's overseas industrial parks should also be short-term and long-term. In the short term, enterprises' needs are more inclined toward the role of overseas industrial parks in reducing costs and increasing direct profits, while long-term needs focus more on the critical and sustainable support to their international strategies. Enterprises may even make some sacrifices to support the construction and operation of the parks currently (for example, choosing a park that does not have the lowest land prices), so as to have long-term return of better service and infrastructure supports.

## **6.2 Chinese Enterprises' Invest Willingness in Southeast Asia**

Since the research objects in this article, the four overseas industrial parks, are all located in Southeast Asia, the first question in this chapter is: Why do these enterprises choose to invest in Southeast Asia? From a cost-reduction perspective, China's inland regions, with their cheap labor and land prices, could also be ideal investment destination for Chinese enterprises.

Based on this, this section aims to compare the willingness of Chinese enterprises to invest inland versus in Southeast Asia. For the deeper insight into Chinese enterprises' cost-reduction needs, this study adopts a hypothetical perspective: the unique advantages of inland regions can help further reduce production costs, while the unique advantages of Southeast Asian countries are more conducive to reducing trade costs.

However, there is not much direct evidence to support this hypothetical perspective in the literature review. The author was inspired by an interview with a Chinese company in LJIP. At that time, the person in charge of this enterprise mentioned: (1) Because they could not clearly identify the advantages of investing in inland region and Southeast Asia, they ultimately chose to invest and build factories in both places at the same time. (2) About the advantages of overseas investment. At the beginning, the purpose was to reduce production costs through the advantages of Southeast Asian countries. But after experiencing the China US trade war, they found that reducing trade costs seems to be the biggest benefit of overseas investment.

### **6.2.1 Challenges Faced by Chinese Enterprises**

After China initiated its reform and opening-up policy in 1978, the southeastern coastal regions, particularly Guangdong Province near Hong Kong, became the first areas in China to be integrated into global value chains. This led to the emergence of a large number of Chinese enterprises entering in global value chains with low-cost advantages. These enterprises often undertook export orders from Hong Kong, Japan, South Korea, and other countries. The main areas where these enterprises are concentrated include Shanghai, Guangdong, Jiangsu, Zhejiang, and Fujian provinces, which have become China's main economic development regions.

After more than 40 years of development, the enterprises in these coastal regions face two major challenges in costs and market demand.

First, the primary issue is cost pressure. Over the decades, China's demographic dividend has diminished, and labor costs and wages have begun to rise steadily. The manufacturing sector in the

southeastern coastal regions of China is experiencing significant labor shortages<sup>231</sup>. Moreover, the rapid urbanization of the coastal areas has also led to a sharp increase in land prices<sup>232</sup>. In contrast, other developing countries around China, such as Vietnam and India, have increasingly highlighted their competitive advantages due to lower labor costs and land prices. Southeast Asian countries like Philippines and Vietnam are catching up quickly in the processing and manufacturing sectors. Some multinational corporations have already started adjusting their industrial chain layouts in Asia, shifting investments and factory setups from China to these Southeast Asian countries<sup>233</sup>. Liu Zhibiao pointed out that if this trend continues, countries such as ASEAN, India, and Latin America will gradually replace Chinese manufacturing with more cost-effective alternatives<sup>234</sup>.

Second, Chinese enterprises also face challenges in market demand. China is not only at risk of being replaced by developing countries in manufacturing but also faces pressure of decreasing market demand from developed countries. After the 2008 global financial crisis, demand for labor-intensive manufactured products from developed countries significantly decreased. Meanwhile, Western countries like the United States have adjusted their globalization strategies and promoted "reindustrialization" strategies<sup>235</sup>. These moves have made it difficult for China to maintain its export-oriented strategy for low-end manufacturing.

To sum up, Chinese enterprises face tremendous challenges. Even they can only maintain their existing orders by undercutting the price of their products, avoiding being replaced by countries like Vietnam and India in manufacturing. But reducing profit margins is only a temporary measure; Chinese enterprises must find more effective solutions to this problem.

## 6.2.2 Transferring Industries to Low-cost Regions as Solution

One solution to the above problems is to increase the added value of products through industrial upgrading, thus addressing the low-cost challenges from developing countries and expanding the markets in developed countries. Just like scholars Chen Jian and Gong Xiaoying mentioned, it is a timely opportunity for China to provide high-end supply and optimize its industrial upgrading path

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<sup>231</sup> Hu Qiongjie, Xia Hongsheng, "Analysis of Manufacturing Industry Upgrade Based on Global Value Chains", *Commercial Times*, 2011, No.17, P104-105

<sup>232</sup> Zhang Yuanpeng, "BRI and the construction of a new global value chain", *Forum of World Economics & Politics*, 2017, No.6, 39-53

<sup>233</sup> Ding Xuedong, "China's transformation from 'world factory' to international production capacity cooperation - China's rise in the global production value chain", *Globalization*, 2015, No.7, P12-20

<sup>234</sup> Liu Zhibiao, "China's Second Wave of Economic Globalization", *Academic Monthly*, 2013, No.1, P88-96

<sup>235</sup> Liu Zhibiao, "Shift from the global value chain to the global innovation chain: the new driving force for China's industrial development under the 'new normal'", *Academic Monthly*, 2015, No.2, P5-14; Wang Ziheng, Yi Yingda, Wei Wenyu, "Research on the Trend of China's Foreign Industry Transfer under BRI", *Modern Business Trade Industry*, 2018, No.2, P5-6

when China's advantage in labor-intensive industries gradually diminishes<sup>236</sup>. However, industrial upgrading in China faces a series of challenges, making it difficult to achieve in the short term without sufficient capital and experience accumulation. Several factors have become significant constraints: (1) China already has the capability to produce high-tech equipment, but the industrial system for designing and producing new products with international competitive advantages has yet to be formed<sup>237</sup>. In addition, developed countries also will impose export restrictions on China in terms of core technologies<sup>238</sup>, for example, in recent years, the United States has imposed restrictions on the export of chips to China, hindering the development of Chinese AI technology. These have led to a much slower increase of value added than the rate of the cost growth in the manufacturing sector. (2) The trade costs of Chinese products continue to rise due to trade restrictions imposed by countries like the United States. After the U.S.-China trade war, Chinese products face higher export costs and risks. (3) Insufficient financial services. While China's processing and manufacturing industries have greatly improved since joining global value chains, the development of industrial services, including financial services, has been slow. Manufacturing enterprises have relatively few channels and forms of funding, such as bank loans, mortgages, and financing, which need to be improved. Furthermore, deficiencies in financial regulations, services, and supervisory tools will lead to less effective implementation of the supporting policies. For example, the Government's preferential policies on industrial land may lead to speculative behavior by some enterprises, which benefit from selling and reselling the land instead of using it to improve production<sup>239</sup>.

Based on this, industrial transfer to low-cost regions has become an alternative solution to industrial upgrading. By transferring industries, production processes that have lost their comparative advantage can be moved to places where production costs are lower. More importantly, industrial transfer is a good response to the current urgent challenges, helping Chinese enterprises to ensure that they will not be replaced before finding a fundamental solution. The urgent challenges mainly include two points, one is from countries such as Vietnam and India that are catching up with China in manufacturing more and more quickly, another one is from the United States which is increasingly restricting China's international trade, such as the trade war and decoupling measures. Chinese scholars have a positive attitude towards industrial transfer. s

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<sup>236</sup> Chen Jian, Gong Xiaoying, "Research on China's Industry-led Belt and Road Regional Value Chain Construction", *Research on financial and economic issues*, 2018, No.1, P43-49

<sup>237</sup> Zhang Keyun, "BRI and China's development strategy", *Research on Development*, 2018, No.4, P1-13

<sup>238</sup> Liu Zhibiao, "China's Second Wave of Economic Globalization", *Academic Monthly*, 2013, No.1, P88-96

<sup>239</sup> Liu Zhibiao, "Shift from the global value chain to the global innovation chain: the new driving force for China's industrial development under the 'new normal'", *Academic Monthly*, 2015, No.2, P5-14

Jia Lingjun and Zhu Lin describe industrial transfer as “gaining greater profit margins in the international market by extending the life cycle of products”<sup>240</sup>. Su Hang mentioned the purpose of industrial transfer is “to compensate for their own comparative disadvantages in international business”<sup>241</sup>. Zhang Keyun pointed out, after the industries transferred from the coastal regions, these regions can better centralize more resources on realizing the intelligent upgrading for China's Industry 4.0<sup>242</sup>. To conclude, Chinese scholars believe that industrial transfer can bring two main benefits: first, by extending the product lifecycle, Chinese enterprises can continue to maintain their current profits in the international market; second, for China's southeastern coastal regions, transferring labor-intensive industries abroad allows local areas to focus more on intelligent and digital upgrading.

But this also brings a problem of how to determine the destination of industrial transfer. From the perspective of cost reduction, Southeast Asian countries are ideal investment destination, but inland China is also a suitable choice. This is very difficult for Chinese enterprises, as both directions of investment can bring low costs in terms of production factors (such as labor costs, production costs, land costs, etc.). But the advantages of both in reducing production costs should be similar, otherwise Chinese companies would not need to hesitate in investment decisions.

Therefore, for enterprises, their decision-making is based on how to achieve cost reduction in inland China and Southeast Asia according to their unique respective characteristics.

### **6.2.3 Industrial Transfer to Inland China**

Many manufacturing enterprises in China's coastal areas prefer to enter in the industrial parks and economic zones in inland China. From the long term, this is mainly because of the huge potential offered by China's strong policy support for China's inland regions, such as the Western Development Strategy and the BRI, which aims to connect China with Central and East Asian markets. Despite the huge potential, this will take a long time to develop, and so it will be difficult to immediately meet the urgent short-term needs of Chinese enterprises.

In fact, China formulated a long-term plan for transferring industries from coastal to inland very early on. When the southeastern coastal areas leveraged their low-cost advantages to integrate into global value chains, China had already foreseen the day when those low-cost advantages

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<sup>240</sup> Jia Lingjun, Zhu Lin, “A New Way of China-ASEAN Economic and Trade Cooperation: Overseas Economic and Trade Cooperation Zone”, *Co-operative Economy & Science*, 2015, No.13, P109-111

<sup>241</sup> Su Hang, “Research on Overseas Transfer of China's Manufacturing Industry under BRI”, *Intertrade*, 2015, No.3, 18-21

<sup>242</sup> Zhang Keyun, “BRI and China's development strategy”, *Research on Development*, 2018, No.4, P1-13

disappear. Consequently, a series of plans were developed, proposing a transfer plan: as costs in the southeastern coastal areas rise, local industries will shift towards industrial upgrading of capital-intensive, while the labor-intensive industries will transfer from southeastern coastal provinces like Guangdong, Jiangsu, and Zhejiang to inland areas, promoting the industrialization of inland with low-cost advantages. There are even scholars who expect that a complete supply chain will be constructed from inland China to coastal China, thus ensuring upgrading in the global value chain. But this progress has been slow and has not met the expected targets by far<sup>243</sup>.

Transferring industries to inland offers several advantages to enterprises: (1) Cheaper Production Factors. Compared to the southeastern coastal areas, the inland regions provide cheaper production factors, including labor, production costs, and land prices. (2) Sufficient Government Policy Support. The Chinese government's consistent policy support for the western regions instills confidence in enterprises. One of the representative supports is the "Western Development Strategy" since the 1990s, which aims to strike the balance between the development in China's eastern and western regions. As a result, both central and local governments in the western are welcoming industrial transfers from the coastal regions by proposing a series of preferential policies. Another representative support is the Silk Road Economic Belt (refers to the 'Belt' of 'Belt and Road Initiative'). It is proposed in 2013 and offers generous policy support to Chinese enterprises investing in inland China. And the goal of the Silk Road Economic Belt is to open up trade routes from Europe through Central Asia to China's inland regions and develop the markets along the Silk Road. If this goal is achieved, such strategic, forward-looking investments in inland areas will yield significant returns, although this may take a long time. (3) Compared advantage to Overseas Investment. There will be no language problem and difficulties in adapting to the local culture and political system. Additionally, the enterprises can still enjoy the convenient services from the same financial institutes. That is so different from the investment overseas, as Chinese enterprises in there will face a dilemma: not only is it difficult to obtain services such as loans from local financial institutions, but they also cannot not receive services from Chinese domestic financial institutions because overseas financial services are regarded as too risky.

Despite the numerous benefits of transferring industries to inland, challenges remain for enterprises in the coastal regions which rely heavily on overseas orders: (1) No Reduction in Trade Costs and Risks. Investing in inland increases transportation costs, as products still need to be transported from inland areas to ports in the coastal regions for export. More critically, as countries

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<sup>243</sup> Chen Jian, Gong Xiaoying, "Research on China's Industry-led Belt and Road Regional Value Chain Construction", *Research on financial and economic issues*, 2018, No.1, P43-49

like the U.S. impose increasingly strict export restrictions on China, countries like India and Vietnam, with their geographic location as international trade hubs and trade agreements with many developed countries, have shown greater advantages in reducing trade costs. (2) The siphon effect. Although it is expected that the industrial transfer to inland China will ensure the enterprises continuous using the low production cost, there is controversy in Chinese scholars about whether such an advantage actually exists in inland China. Chinese scholars like Liu Zhibiao and Zhang Jie point out that the low production cost advantage in inland is not apparent as expected or may have already disappeared. This is because the coastal areas of China will continue to recruit low-cost workers and purchase raw materials from the inland regions after the low production costs advantages have faded in the coastal. The inland regions become mere suppliers of raw materials and labor. As a result, the low production costs advantages of inland China such as labor and material costs may have already vanished before the industries transfer completed<sup>244</sup>. Even if this is not the case, the possibility remains that the advantages from inland are much less than expected, which may lead to a failure to help Chinese enterprises cope with cost pressures.

The most favorable factor for investing in inland regions is the various policy supports and finance services from financial institutions, while the disadvantage is mainly the increased export costs. Although the interviewees in this chapter are Chinese firms that have invested overseas, their perceptions of the advantages and disadvantages in inland China are still meaningful: first, many Chinese enterprises invest in inland at the same time as they invest overseas; second, even if some Chinese enterprises firms ultimately chose to invest overseas, their decision was made after a careful and thorough comparison of the advantages of investment in inland and in overseas. From a macro perspective, the benefit of investing in inland areas of China is to enjoy more preferential policy support, thereby reducing production costs. This is because the experience and preferential policies of the governments in the southeastern coastal regions have been proven to be very effective. Therefore, local governments in inland areas can completely copy these experiences and preferential policies to attract more enterprises to invest in the inland and provide better support. The unfavorable conditions are very unfavorable for Chinese enterprises that mainly export products, as the products need to be transported to coastal areas of China first and then shipped.

#### **6.2.4 Industrial Transfer to Southeast Asian Countries**

Many Chinese enterprises choose to transfer their industries to Southeast Asia. The advantages of relocating to Southeast Asian countries are as follows: (1) Countries like Vietnam and Indonesia

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<sup>244</sup> Liu Zhibiao, Zhang Jie, "From Integrating into Global Value Chain to Building National Value Chain: Strategic Thinking on China's Industrial Upgrading", *Academic Monthly*, 2009, Vol.41, No.9, P59-68

have significant advantages in terms of production factors such as sufficient semi-skilled labor force, lower wages, and lower land prices. (2) These countries also have substantial advantages in international trade. Firstly, Southeast Asian countries are located on key international trade routes. Secondly, they have numerous trade agreements with developed countries like the United States<sup>245</sup>. Three representative industrial parks that fully use these advantages to reduce trade costs are China-Egypt TEDA Suez Economic and Trade Cooperation Zone, TCR and Zambia-China Economic and Trade Cooperation Zone<sup>246</sup>. (3). Regardless of whether this overseas investment is active or passive, it has in fact accelerated the internationalization of Chinese enterprises. The milestone is that whereas China's overseas investment was previously focused on expanding international markets, it is now aimed at establishing overseas production bases and building overseas production supply chains, which is the most important step in the transformation into a multinational enterprise.

However, investments in Southeast Asia also have some challenges. (1) Challenges for Enterprises. A major challenge is whether Chinese enterprises can fully utilize local advantages, especially the most of them lack experience in overseas investments. They may encounter the great gap between the investment budget and the actual investment requirements due to the inexperience. This is critical to Chinese manufacturing enterprises, because they are more sensitive to investment costs due to their very low value-added products. It is even possible that even if the actual cost of investment ends up being just a little higher than expected, the enterprises will eventually be unable to finish the industrial transfer. (2) Challenges from the Local Investment Environment. Different from the investment in inland regions of China, the enterprises invest overseas have to deal with societies that have different cultures, languages, and systems<sup>247</sup>. This raises the cost of communication between Chinese enterprises and local governments. And the risk is reflected in the questions: Is the local government willing to support foreign enterprises? And if yes, is their implementation of policy efficient enough?

There are two benefits to investing in Southeast Asia. (1) Chinese companies can reduce production costs by leveraging the price advantages of Southeast Asian countries in terms of salary, production

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<sup>245</sup> Jia Lingjun, Zhu Lin, "A New Way of China-ASEAN Economic and Trade Cooperation: Overseas Economic and Trade Cooperation Zone", *Co-operative Economy & Science*, 2015, No.13, P109-111; Shen Minghui, Zhang Zhongyuan, "China Overseas Economic and Trade Cooperation Zone: A Capacity Cooperation Platform of the 'Belt and Road'", *Expanding Horizons*, 2016, No.3, P110-115; You Hongbing, Cheng Nan, Yang Lei, "Characteristics and Development Suggestions to Overseas Industrial Park Construction", *Journal of International Economic Cooperation*, 2017, No.2, P36-41

<sup>246</sup> Lu Hongyan, "Experience and Enlightenment of the Development of China's Overseas Economic and Trade Cooperation Zones", *Foreign Economic Relations & Trade*, 2013, No.10, P7-10

<sup>247</sup> Zou Haofei, Duan Jingxin, "Overseas cooperation zones convey new ideas of Chinese investment", *China Investment*, 2015, P33-37

materials, and land. (2) The enterprises can further reduce expert trade costs and risk. This need has become more urgent due to the U.S.-China trade war, and the U.S. attempts to decouple from China in recent years.

### **6.3 Chinese Enterprises' Decision-Making of Selecting Overseas Industrial Parks**

Through 6.2, it is clear at the macro level whether Chinese enterprises are more concerned about reduction in production costs or trade costs. However, this is still not enough to fully explain why they ultimately choose to enter the current overseas industrial parks.

Apart from directly asking questions about the investment needs and motivations during interviews, China's overseas industrial parks can serve as a useful investigative perspective. The primary reason Chinese enterprises enter these parks is that the perceived and expected functions of the parks (which maybe not the actual functions) meet their investment needs. These perceptions and expectations of functions can more directly reflect the deeper investment needs.

Moreover, even when enterprises decide to enter an overseas industrial park, they still face the challenge of selecting one park among the several similar and nearby parks. The more hesitant and difficult this decision-making process is, the more it reveals the true intentions and needs of enterprises in overseas investments.

#### **6.3.1 Overview**

With perspective one, it is much clear to figure out how Chinese enterprises perceive and evaluate costs. But it is not enough to explain the final decision in selecting the current overseas industrial park.

This section uses China's overseas industrial parks as a tool to further understand the specific needs of Chinese enterprises' overseas investments. The enterprises chose an industrial park probably because the park's current or future functions meet their investment needs. Otherwise, they could have tried other investment methods. (1) One option is to negotiate directly with local governments to obtain more targeted preferential policies. (2) Another option is to choose industrial parks established by the investors from countries such as Japan, South Korea, or Singapore. These overseas industrial parks, started as early as in the 1980s and 1990s, can provide more specialized infrastructure and services. In these industrial parks, Chinese enterprises can more easily collaborate with successful multinational enterprises already in the parks. This is

particularly important for Chinese enterprises eager to reduce overseas investment costs.

The interview subjects are those enterprises that ultimately chose China's overseas industrial parks. A more specific and intriguing question arises: Why did these enterprises ultimately select their current park? What drove their final decision? The production and trade costs mentioned in the perspective one are still insufficient to explain this fully. It is needed to find the most critical factor influencing Chinese enterprises' overseas investment decisions. The answer can be more easily found when Chinese enterprises are faced with several similar overseas industrial parks. Because the challenging decision-making process makes enterprises pay more attention to reflect what are their real investment demands by comparing different parks in various aspects such as policy support, location advantages, transportation conditions, and production factors.

But the first needs to be addressed is the problem that the definition and classification of the parks' functions are not clear. This is because these parks are still in the early stages of development and lack experience in overseas operation and planning. The functions of these parks have not yet demonstrated very fixed and obvious characteristics. Even the functions mentioned in China's overseas industrial park policy are merely vague descriptions of long-term goals, rather than clearly defining and categorizing these functions.

### **6.3.2 Enterprises' Short-Term and Long-Term Needs**

Therefore, this paper attempts to divide the functions of China's overseas industrial parks into short-term and long-term functions, corresponding to enterprises' short-term and long-term investment needs. First, enterprises' short-term needs focus on reducing overseas investment costs to avoid being replaced in the supply chain. To meet this, overseas industrial parks should offer short-term functions, such as providing infrastructure and services at the lowest possible price.

Second, enterprises' long-term needs are more aligned with their internationalization strategies. They prefer industrial parks that can support this, such as those with extensive local business experience or the ability to obtain more favorable policies. Some enterprises may even make sacrifices to support the park's development and operations, such as choosing a park that does not offer the lowest land prices.

In summary, for Chinese enterprises already operating in overseas industrial parks, their decision-making process can be seen as recognizing or anticipating the park's functions. The better a park's perceived or expected functions align with their investment needs, the more likely they are to choose it.

### 6.3.3 Enterprises' Needs for Short-term Functions of Overseas Industrial Parks

From a short-term benefit perspective, Chinese enterprises hope to minimize production costs by industrial transfer overseas, as a way to continue to maintain current export orders and avoid being replaced by Vietnamese, Indian and other manufacturing companies with lower price advantages.

In terms of Infrastructure provision from short-term. Enterprises focus on establishing factories at a lower cost and starting production as early as possible. This means: (1) Enterprises need the industrial park to provide land at lower prices for sale or lease, as land costs constitute a significant portion of enterprises' overseas investment; (2) The parks need not only to ensure the completeness of basic infrastructure, such as water, electricity, and sewage treatment, but also offer these at the possible lowest usage fees; (3) If possible, enterprises need the park to provide low-cost rental of standard factory buildings, so that production can begin with rented facilities before the enterprises' own factory is completed.

In terms of service provision for short-term. Enterprises hope that the park can provide a range of cost-effective services to compensate for their lack of overseas investment experience. This means: (1) The park should offer various services to support production, such as gathering labor and finding suitable local partners and suppliers; (2) The park should provide one-stop services to minimize the time cost of communicating with local governments and expedite procedures; (3) Enterprises hope the park can provide cost-reduction preference policies as possible, especially taxation reduction; (4) Enterprises expect the park to help them quickly adapt to the local language, culture, and political system, particularly by providing a comprehensive understanding and consultation of local laws and regulations.

To sum up, Chinese enterprises which have invested in Southeast Asia have a highly sensitive demand for the costs- reduction as their primarily goal of the short-term benefits. Thus, the short-term functions of the park in reducing production costs help to simplify and clarify the decision-making process for enterprises. Because in this case, the enterprises can just quantify the various indicators and use data comparisons for decision-making. For enterprises, the less time spent on this decision-making process, the sooner the industrial transfer can be completed, thereby dealing the most pressing and urgent cost pressures. This can be of great beneficial to enterprises, for example, Hailiang group co. Ltd completed its investment in Longjiang Industrial Park in 2008, which helped the company avoid huge losses during trade restrictions from the U.S. in the following year<sup>248</sup>. To contrast, some enterprises missed the best investment opportunities because

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<sup>248</sup> Gao Chao, "A Review of Six Years of Construction of China's Overseas Cooperation Zones", *China's Foreign*

they spend too much time considering various kind of needs and evaluation indicators. For example, during the interviews, some enterprises mentioned that after a lot of comparisons, they found disappointed that the gap between the advantages of several industrial parks was not so big but end in lost the best time to enter in the park with the lowest cost.

However, the excessive focus on short-term benefits will sometimes have a negative impact on the planning of industrial parks. This has led some industrial park investors to take this as the main and only demand of Chinese enterprises' overseas investment. In this case, their planning will only center on cost reduction, thus neglecting other long-term and sustainable functions of the industrial parks<sup>249</sup>. Eventually, a large number of overseas industrial parks, which take productions costs reduction as their main function, appeared in many neighboring areas at the same time. This not only leads to greater difficulties for enterprises in the selection process, but also leads to insufficient funds for operations and sustainable development of the industrial parks due to homogenized competition and price wars among these parks with similar functions.

#### **6.3.4 Enterprises' Needs for Long-term Functions of Overseas Industrial Parks**

The long-term goal refers to the internationalization strategy of Chinese enterprises, which involves establishing overseas production bases, building overseas industrial chains, and ultimately evolving into large multinational enterprises. Unlike short-term, Chinese enterprises which focus on long-term needs, are not sensitive or strict about costs, because reducing costs does not help in building an overseas industrial chain or becoming a multinational company. Therefore, these enterprises do not prioritize cost reduction as their main objective. Instead, they focus on whether the industrial park can help them overcome the disadvantages encountered in their internationalization strategy. According to Chinese scholars, the challenges of Chinese enterprises' long-term development are mainly summarized in two aspects. (1) Being inexperienced leads to a lack of ability in planning and realizing the long-term planning, which may, for example, cause Chinese enterprises to have difficulty in accurately predicting the actual capital required for overseas investments, or to pay more costs due to too inefficient implementation because of lack of experience<sup>250</sup>. (2) The goals of enterprises' long-term overseas development require sustained investment of large amounts of capital, which would have been particularly stressful for Chinese enterprises. Because most of those investing in Southeast Asia are mainly SMEs, whose

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*Trade*, 2013, P30-33

<sup>249</sup> Jia Lingjun, Sa Qirong, "An Analysis of the Development Status of China's Overseas Economic and Trade Cooperation Zones", *Practice in Foreign Economic Relations and Trade*, 2015, No.8, P25-28

<sup>250</sup> Su Hang, "Research on Overseas Transfer of China's Manufacturing Industry under BRI", *Intertrade*, 2015, No.3, 18-21

international competitiveness and total returns are limited, making it difficult for them to sustain the fundamental requirements of enterprise internationalization. Even these enterprises have to face fierce competition from international and domestic manufacturing companies while investing overseas.

To sum up, the purpose of Chinese enterprises' overseas investments is not merely to solve cost problems but to establish overseas production bases and industrial parks to transition into multinational corporations. But this stands for facing more difficult challenges, including a lack of experience in international investment and significant capital investment, and adapting to the local culture, politics, and economic order of the investment destination.

Therefore, to achieve this long-term goal, Chinese enterprises have more demands and expectations for the functions of overseas industrial parks in this field. The most favorable condition is that, from both policy and corporate perspectives, promoting overseas production and building local supply chains through industrial parks has become a common goal. From a policy perspective, the aim is to establish regional value chains to upgrade in the global value chain, while the enterprises' ultimate goal is to lay the foundation for becoming a multinational corporation. Moreover, Chinese enterprises' overseas investments also benefit domestic industrial adjustments by providing more space to introduce new technologies and industries to China and concentrating more resources on the relative supportive measures as well as on the local industrial upgrading<sup>251</sup>.

Chinese enterprises which focus on long-term benefits also have specific requirements for industrial parks in terms of infrastructure provision and service provision.

In terms of infrastructure provision for long-term. (1) Not only do enterprises require the parks to provide high-quality infrastructure such as electricity, water supply, and roads, but they also need specialized and targeted infrastructure for their main products production. (2) Enterprises expect the parks to build more diverse types of infrastructure, especially vocational and residential areas, to attract more skilled labor for the enterprises in the park and improve the quality of life for their employees<sup>252</sup>.

In terms of service provision for long-term. (1) Enterprises need overseas industrial parks to provide more professional consulting advice for their overseas investment plans, rather than just a basic introduction to the investment destination. Professional advice from the industrial park

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<sup>251</sup> Xun Kening, "New opportunities for the development of overseas parks under the background of the 'Belt and Road'", *Theory Journal*, 2015, No.10, P46-51

<sup>252</sup> Zhao Jianhua, "Analysis of the Current Situation of Overseas Economic and Trade Cooperation Zones from Zhejiang Province", *Statistical Theory and Practice*, 2009, No.11, 9-11

helps enterprises formulate more targeted and customized long-term overseas investment plans, ensuring smoother investment processes. Moreover, for enterprises that lack comprehensive consideration and preparation, these professional advisories can help them to pause or abandon their overseas investment plans in time<sup>253</sup>. (2) The enterprises need industrial parks to play an important role as coordinators among the Chinese enterprises. China's overseas industrial parks provide a platform for Chinese enterprises to cluster abroad. Through active and efficient coordination by the park operators, Chinese enterprises can strengthen their cooperation, thereby sharing risks, information, and benefits. (3) Enterprises need industrial parks to provide a better external business environment. This can be achieved in three aspects: efficiently pooling local production resources, enhancing communication and cooperation with local governments to gain more support, as well as strengthening communication with potential partner outside the industrial park, promoting the collaboration between them and Chinese enterprises<sup>254</sup>.

For Chinese enterprises aiming to achieve long-term overseas investment goals, the expected the park to be developed into a "harmonious ecosystem" where operators, enterprises, and external organizations (such as agencies, accounting firms, law firms, agents, suppliers, etc.) coexist and prosper<sup>255</sup>. But when these cannot be realized, what should be the response of these enterprises? This is the research focus of this section: If overseas industrial parks are now unable to provide the infrastructure and services needed for long-term, will Chinese enterprises choose to adjust their long-term investment needs to short-term needs (i.e., take cost reduction as the main goal), or will they choose to voluntarily sacrifice some of their interests (for example, they don't be very strict on the land price or operation fees) to enter in the parks as a practical action in support of the overseas industrial parks, so that the parks can be better developed to bring up long-term returns in the future?

## 6.4 Research Design for Sub-Question Two

Chapters 5 to 7 have formed the interviewees and interview questions based on sub questions 1, 2, and 3. Finally, in Chapter 8, all interview questions will be organized according to the interviewee

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<sup>253</sup> Zou Haofei, Duan Jingxin, "Overseas cooperation zones convey new ideas of Chinese investment", *China Investment*, 2015, P33-37; Shen Minghui, Zhang Zhongyuan, "China Overseas Economic and Trade Cooperation Zone: A Capacity Cooperation Platform of the 'Belt and Road'", *Expanding Horizons*, 2016, No.3, P110-115

<sup>254</sup> Zhou Mi, "Overseas Economic and Trade Cooperation Zone: An Important Platform for the Sustainable Development of Chinese Enterprises", *International Project Contracting & Labor Service*, 2017, No.10, P26-30; You Hongbing, Cheng Nan, Yang Lei, "Characteristics and Development Suggestions to Overseas Industrial Park Construction", *Journal of International Economic Cooperation*, 2017, No.2, P36-41

<sup>255</sup> He Jia, "Overseas Economic and Trade Cooperation Zone: A Win-Win Platform for the Belt and Road Initiative", *21st Century Business Herald*, 2017.03.29

group, with a complete itinerary of interview questions.

The research on sub-question 2 will be based on the interview with three groups. (1) Enterprises managers within the four studied overseas industrial park, which is the primary interview subject for sub-question two. (2) Investors and operators of overseas industrial parks. Through their perspectives and observations, this can help better understand where the actual needs of enterprises are mainly manifested. (3) Members from Chinese chamber of commerce near overseas industrial parks. These members are experienced entrepreneurs who have engaged in long-term business and investment activities abroad, often with 10-30 years of overseas investment experience. Their insights will help further understand the fundamental needs of Chinese enterprises investment abroad.

The interview questions for sub-question 2 are formed as follows.

Chapter 6	Respondents and Questions
Question 1-6	<b>Enterprises Managers within Overseas Industrial Park</b>
	<p>Q1: Introducing your overseas investment, especially the process of entering the overseas industrial park.</p> <p>Q2: Did you hesitate when deciding between investment in inland China and investment in Southeast Asia? Did you compare these two?</p> <p>Q3: Do you agree with Perspective One in Chapter 6, which compares the cost advantages of investment in inland China and investment in Southeast Asia? Does this help explain your decision-making or clarify your future investment strategy?</p> <p>Q4: What was the biggest difficulty in choosing an overseas industrial park? How did you finally make your decision?</p> <p>Q5: Do you agree with Perspective Two in Chapter 6, which suggests that the enterprise's short-term and long-term goals help explain its fundamental overseas investment needs and the choice of the industrial park?</p> <p>Q6: How would you comprehensively evaluate your overseas investment so far?</p>
Question 7-10	<b>Investors and Operators of Overseas Industrial Parks</b>
	<p>Q7: Aside from the impact of the existing industrial parks mentioned in G1Q7, what other challenges do overseas industrial parks face in attracting enterprises?</p> <p>Q8: Do you agree with Perspective One in Chapter 6, which compares the cost</p>

	<p>advantages of investment in inland China and investment in Southeast Asia?</p> <p>Q9: Do you agree with Perspective Two in Chapter 6, which suggests that enterprise's short-term and long-term goals help explain its decision to choose a China's overseas industrial park?</p> <p>Q10: Compared to other industrial parks, what is the main attraction of China's overseas industrial parks for enterprises?</p>
Question 11-15	<p><b>Members from Chinese Chamber of Commerce near Overseas Industrial Parks</b></p>
	<p>Q11: What are your investment needs when investing overseas? As an enterprise that has not entered an industrial park, how are your investment needs being met? Do you currently consider joining an industrial park?</p> <p>Q12: From your perspective, what are the main needs of enterprises within overseas industrial parks? What are the challenges in meeting these needs?</p> <p>Q13: In terms of investment needs, what are the most noticeable differences between you and enterprises within overseas industrial parks?</p> <p>Q14: Perspective One in Chapter 6 states that the main purpose of Chinese enterprises investing overseas is to reduce trade costs. Do you agree? Can overseas industrial parks be helpful?</p> <p>Q15: Perspective Two in Chapter 6 categorizes Chinese enterprise investment needs into short-term and long-term goals. Do you agree? Can overseas industrial parks meet these short-term and long-term needs?</p>

## Chapter 7 Research on Sustainable Profitability of Overseas Industrial Parks

### 7.1 Introduction of Sustainable Profitability of Overseas Industrial Parks

#### 7.1.1 Understanding of Industrial parks' Sustainable Profitability

The importance of achieving sustainable profitability for overseas industrial parks. So far, China's overseas industrial parks have developed relatively smoothly in their initial stages. This is largely due to their advantage in reducing costs for enterprises. For the next, understanding the current state of their sustainable profitability helps determine whether these parks can generate enough revenue to maintain normal operations once their cost advantages diminish over time. It also helps assess whether they can continue to attract more enterprises in the future. Just like the Chinese scholar Zhang Shiguo mentioned, "Building overseas economic and trade cooperation zone is just the first step of a long march. It is not difficult, but the real challenge lies in long-term development after construction. To achieve this, each zone must develop its unique characteristics and cultivate advantageous pillar and leading industries, to form the industrial foundation for sustainable profitability"<sup>256</sup>.

Challenges to sustainable profitability. As mentioned in Chapter 2, China's overseas industrial parks currently face two major challenges in achieving this. The first is the high cost, especially when a lack of planning experience results in significant additional costs. For example, some overseas industrial parks were planned with only basic infrastructure, such as land redevelopment, but after construction, they figured out the essential utilities like water, electricity supply, and wastewater treatment were insufficient to support production activities. As a result, industrial parks had to invest additional funds to build the necessary infrastructure to sustain operations<sup>257</sup>. For another example, in their planning, the investors of the parks optimistically assumed that industrial parks would receive strong support from local governments, as these parks could promote industrialization and create jobs. However, in reality, a lack of expected support led to higher-than-anticipated costs. This issue was exemplified by the challenges faced by the Ussuriysk Economic and Trade Cooperation Zone<sup>258</sup>.

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<sup>256</sup> Zhang shiguo, "Several ideas for developing the construction of overseas economic and trade cooperation zones", *Foreign Business*, 2007, No.1, P20-21

<sup>257</sup> Qi Xin, Yang Chao, "Discussion and Suggestions on Several Issues in the Construction of Overseas Economic and Trade Cooperation Zones", *Intertrade*, 2018, No.6, P30-33, 66

<sup>258</sup> Gao Chao, "A Review of Six Years of Construction of China's Overseas Cooperation Zones", *China's Foreign*

The second challenge is the limited profit models and long cost recovery cycles. The primary source of revenue for industrial parks is currently land sales or leasing, which type of income is not sustainable in the long run. It will be worse when some overseas industrial parks underestimated the length of the cost recovery cycle during planning. As a result, they faced severe financial crises before fully recovering their investment costs<sup>259</sup>.

Based on this, Chinese scholars have proposed several suggestions for achieving sustainable profitability of overseas industrial parks, which can be summarized as follows: (1) Intensive Development. Overseas industrial parks can serve as a platform to integrate all resources, including human resources, policy resources, government relations, public relations, public welfare, professional capabilities, and experience. With efficient coordination of the operators from the parks, these resources can be leveraged to optimize overseas investment by Chinese enterprises<sup>260</sup>. Specifically, by coordinating the advantages and resources, enterprises can better share risks and resources, and further expand the overall scale and functionality of the industrial park<sup>261</sup>. (2) Constructing Overseas Supply Chains. Before losing the advantages of production costs reduction and preferential policies, establish an overseas industrial supply chain, as mentioned in Chapter 6, to serve as the primary driving force for sustainable profitability. (3) Industrial Cluster. The overseas industrial park should focus on promoting industrial cluster around the best-performing and largest enterprises within the park. For example, the park can actively invite and introduce the Chinese or local upstream enterprises related to that industry to the park. This fundamentally enhances the park's overall strength and competitive advantage, promoting Chinese enterprises to "go global"<sup>262</sup>. (4) Strict Selection of Enterprises at Beginning. During the initial development stage of the park, strictly select enterprises based on the leading industry of the park. Such single-industrial parks are often found in the field of mineral resources or in the field of agriculture and livestock sectors. This can facilitate and simplify the planning, construction and operation of the parks. For example, in the case of an industrial park in the agricultural sector, the investor can plan and prepare very comprehensively because they have already identified all specific processes and steps, such as planning in advance the routes for irrigation, transportation and discharge of wastewater<sup>263</sup>. In fact,

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*Trade*, 2013, P30-33

<sup>259</sup> Zan Baosen, "Overseas Economic and Trade Cooperation Zones and 'going out' Strategy", *China Nonferrous Metals*, 2010, No.1, P137-142

<sup>260</sup> *ibid*

<sup>261</sup> Xun Kening, "New opportunities for the development of overseas parks under the background of the 'Belt and Road'", *Theory Journal*, 2015, No.10, P46-51

<sup>262</sup> Zhu Nina, Fan Dan, "Research on China's Overseas Economic and Trade Cooperation Zones", *Beifang Jingmao*, 2017, P11-17

<sup>263</sup> Bo Wenguang, Chen Lulin and Hu Yi, "Research on the Sustainable Development of China's Overseas Economic and Trade Cooperation Zones under the Belt and Road Initiative", *Journal of Chang'an University*, 2018, Vol.20, No.4, P64-74

some industrial parks have already begun to achieve sustainable profitability, particularly those centered around resource-based industries, such as China's economic and trade cooperation zones in Russia on the timber processing industrial as well as the zones in Zambia on non-ferrous metal development<sup>264</sup>.

### 7.1.2 Sustainable Profitability Development of Chinese Domestic Industrial Parks

Since China's reform and opening up in 1978, industrial parks have experienced long-term development and played a crucial role in the country's rapid economic growth. The development process of Chinese industrial parks may serve as a valuable reference for achieving sustainable profitability in overseas industrial parks.

In fact, China's domestic industrial parks have undergone a series of developments and adjustments to gradually form a unique model. The characteristics of this model can be better understood from the perspective of latecomer advantages. (1) The first question in latecomer advantage research is: under what conditions can latecomer countries experience catch-up economic growth? A large number of developing countries have achieved rapid growth since the 1950s. Initially, some scholars attributed this to the low production costs of latecomer countries, which enabled their rapid development. But by the 1970s, scholars began to notice that some countries didn't achieve rapid development with these latecomer advantages. Thus, the scholars tried to explain that there should be two necessary conditions for latecomer countries to achieve catch-up growth, one is the potential of the low production cost, and the other is the ability of these governments to efficiently mobilize resources. Only by mobilizing all resources can the potential of latecomer advantages be truly transformed into reality. Scholars such as Kaname Akamatsu<sup>265</sup> and Michael Porter<sup>266</sup> have proposed a more specific model of resource mobilization, i.e., the pooling of all resources around an introduced new industry to achieve rapid development. This has also greatly influenced political science, prompting political scientists, such as Michael Mann<sup>267</sup>, to redefine the state and government as institutions capable of efficiently mobilizing resources.

(2) The second question in latecomer advantage research is: when will the rapid growth of

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<sup>264</sup> Zan Baosen, "Overseas Economic and Trade Cooperation Zones and 'going out' Strategy", *China Nonferrous Metals*, 2010, No.1, P137-142; Zhu Nina, Fan Dan, "Research on China's Overseas Economic and Trade Cooperation Zones", *Beifang Jingmao*, 2017, P11-17

<sup>265</sup> Kaname Akamatsu, "The 'flying geese' model of Asian economic development: origin, theoretical extensions, and regional policy implications", *Journal of Asian Economics*, 2000, No.4, P375-401

<sup>266</sup> Michael Porter, *Competitive Advantage*, New York: The Free Press, 1985, P33

<sup>267</sup> Michael Mann, "The autonomous power of the state: its origins, mechanisms and results", *European Journal of Sociology*, 1984, No.2, P185-213

latecomer countries slow down, or will they continue to develop until they surpass developed countries in their industries? Through long-term observation, many have noticed that some latecomer countries slow down or even come to a halt after a period of rapid growth. This led scholars to question whether the latecomer advantage could indeed help developing countries surpass first-mover nations, and if so, how this might be achieved. Unfortunately, this question remains unresolved. However, some discoveries have been still made. For instance, scholars like Brezis and Paul Krugman<sup>268</sup>, who believe that latecomer countries may surpass first-mover nations, have proposed a "Leap-frogging" model of technological development based on the successful development experiences of latecomer advantage.

The development of Chinese industrial parks seems to provide clear answers to the two questions mentioned above. For the first, one of the main reasons behind China's economic leapfrogging is its ability to efficiently concentrate and mobilize production resources through industrial parks and special economic zones. This optimization maximized resource efficiency and further strengthened the advantage of low production costs. As a result, enterprises in China's coastal regions were able to integrate more smoothly into the global division of labor.

For the second question. Although it cannot be said that China has already surpassed first-mover countries, there is at least the potential for doing so. This is because China has adjusted and upgraded the functions of its industrial parks to better match new industrial structures and emerging industries. During the early stages of China's rapid development, the primary function of China's industrial parks was to concentrate production resources in an extensive manner. But after a period of development, more and more foreign and Chinese enterprises within these parks began to demand more targeted support and services. At the same time, the sharp increase in the number of industrial parks led to competition among them. All of these changes have prompted parks to offer more comprehensive and professional services. In this context, China's industrial parks have improved and developed in terms of positioning, services, and functions.

### **7.1.3 Comparison between China's Domestic and Overseas Industrial Parks**

In achieving sustainable profitability, insights can be drawn from the development of domestic industrial parks in China. Firstly, comparison can help identify the common concerns that both types of parks focus on sustainable profitability, thereby clarifying the core characteristics for sustainability. Currently, the common points are as follows. (1) The primary task of overseas

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<sup>268</sup> Elise S. Brezis, Paul R. Krugman, Daniel Tsiddon, "Leapfrogging in International Competition: A Theory of Cycles in National Technological Leadership", *American Economic Review*, 1993, No.5, P1211-1219

industrial parks remains to reduce overseas investment costs for Chinese enterprises by concentrating various resources, which is similar to the role that China's domestic industrial parks played in their early stages. This approach is relatively extensive but can have significant short-term effects. (2) The development processes of domestic and overseas industrial parks are remarkably similar. After a period of growth, both begin to exhibit the shortcomings brought about by the extensive industrial clustering model. (3) Another point worth noting is that the rapid success of Chinese enterprises in overseas industrial parks may be related to their rapid development in China's domestic parks. This means that Chinese enterprises may have developed a path dependency on industrial parks, so being in an overseas industrial park that can provide a range of infrastructure and services enables them to achieve rapid growth in a familiar environment.

Secondly, comparison can help identify the different characteristics that each type of parks during their sustainable development, thereby clarifying the core characteristics for sustainability. The current differences are as follows. (1) Service objects are different. China's domestic industrial parks mainly aimed to attract foreign enterprises at the beginning. In contrast, while overseas industrial parks also serve foreign enterprises, their primary goal is to serve Chinese enterprises' overseas investments. (2) The level of policy support available also differs. The support provided by China to its domestic parks was immense and comprehensive, while the same level of support is rarely seen in the overseas industrial parks in Southeast Asian countries.

## **7.2 Research on Sustainable Profitability of Domestic Industrial Parks**

This section summarizes sustainable profitability of China's domestic industrial parks, thereby extracting reference and evaluation criteria for overseas industrial parks. Overseas industrial parks have heavily referenced the models of domestic industrial parks in China during their planning, construction, and operational stages. A major reason is that investors of overseas industrial parks have personally witnessed the success of this model in China or have benefited from this model themselves. Hence, when the overseas industrial park policy was announced, not only the Chinese government but also the industrial park investors had strong confidence in building industrial parks overseas because they believed that the successful experience of China's domestic industries would be equally valid overseas. Thus, summarizing the characteristics of sustainable profitability of domestic industrial parks can help better understand the development of overseas industrial parks.

### **7.2.1 Industrial Clustering as the Key to Sustainable Profitability**

As mentioned above, the industrial parks may help late-developing countries achieve rapid

development by concentrating and mobilizing production resources. But this extensive concentration of production resources is only effective in the initial stage. When the advantage of low production cost gradually decreases, the late-developing advantages will gradually slow down and eventually stop, unless industrial parks can be functionally transformed to achieve sustainable profitability.

Domestic industrial parks in China have faced similar challenges of sustainable profitability. At beginning, China utilized industrial parks in the coastal areas, such as Guangdong and Shenzhen, to receive a large number of international orders from nearby Hong Kong. These areas were the first to integrate into the global value chain and achieve rapid economic development in China. But with increasing production costs and higher international market demands for Chinese product quality, domestic industrial parks had to undergo adjustments to development and remain attractive to enterprises.

Based on this, China began to consider the adjustment of industrial park operation model. The most significant change was the realization of the industrial parks that the purpose of resource concentration should be no longer to achieve the lowest production cost but to focus all resources on the main industry for cluster.

In practice, two models have emerged in China's industrial parks to promote industrial clustering. The first model refers to establish a joint industrial park by Chinese and foreign investors with rich experience in industrial park construction and operation. This will help the two sides draw on each other's strengths and work together to develop more targeted planning programs to promote industrial cluster. The most representative example is the Suzhou Industrial Park, jointly established by investors from China and Singapore. The second model is the development of high-tech industrial parks encouraged by China's policies. These parks focus on emerging technological industries with great potential and introducing enterprises related to this industry. Through coordination of the industrial parks, a complete industrial chain of mutual is realized within the park by cooperation and resource sharing among enterprises. The most representative example is **Hangzhou High-Tech Zone**.

## **7.2.2 Case Study in China: Suzhou Industrial Park (SIP)**

### **Part A: Introduction**

Established in February 1994 with approval from the State Council, SIP is the first governmental cooperation project between China and Singapore. SIP is recognized as an important window of China's reform and opening up and a successful model of international cooperation. It's also the

first open innovation comprehensive experimental area of China<sup>269</sup>.

SIP is located in Suzhou, Jiang Su province. In 2024, SIP's GDP reached RMB 400.24 billion. Its total output value of industrial enterprises above the designated size in SIP was RMB 690.919 billion. Its major industries are the equipment manufacturing and electronic information. In 2024, the output value of the equipment manufacturing and electronic information industries reached RMB521.252 billion<sup>270</sup>. In terms of foreign trade, the total import and export volume reached 691.43 billion RMB, with imports at 340.54 billion RMB and exports at 350.89 billion RMB<sup>271</sup>.

### **Part B: Development process**

The establishment of SIP reflects the shared needs of the Chinese and Singaporean governments during the rapid globalization of the 1990s. For Singapore, rising labor costs and limited land resources led the government to encourage overseas investment since the 1980s. China became an ideal destination due to its strong cooperation potential. Singapore had advantages in finance, capital, and technology, while China offered lower labor costs, a vast market, and significant consumer potential—making it highly attractive to Singaporean businesses<sup>272</sup>.

For China, after Deng Xiaoping's Southern Tour Speeches in 1992, the country accelerated its opening-up policies. Singapore's industrial park planning and management, especially exemplified by Jurong Industrial Park (established in the 1960s), attracted great interest from China. This led to the proposal of a joint industrial park project between the two countries. There will be two benefits. First, this will better guide and improve China's industrial park development with the experience from Jurong Industrial Park. Second, through a jointly developed industrial park can enhance China's international investment appeal, especially from Singaporean enterprises<sup>273</sup>.

A crucial factor in the successful establishment of SIP was the strong government support from both sides. In 1992, Deng Xiaoping emphasized learning from Singapore's experience. In September 1992, then-Senior Minister Lee Kuan Yew visited China and expressed interest in a joint industrial park project to incorporate Singapore's expertise. The cooperation was officially approved in 1994, and construction began on May 12th, 1994. By the end of 1997, the first phase

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<sup>269</sup> SIP website, [https://www.sipac.gov.cn/szgyyqenglish/sino/list\\_tt.shtml](https://www.sipac.gov.cn/szgyyqenglish/sino/list_tt.shtml). Last visit: 2025.01.18

<sup>270</sup> SIP website, <https://www.sipac.gov.cn/szgyyqenglish/industries/202502/bae5866b3391421d8e8d37c60d0964ca.shtml>. Last visit: 2025.01.18

<sup>271</sup> SIP website, <https://www.sipac.gov.cn/szgyyq/jsdt/202502/ac7479bd3b804df1b9ce26a30ade97d5.shtml>. Last visit: 2025.01.18

<sup>272</sup> Wang Jianing, Luo Chongpu, Liu Han, et al., "Comparison of Cooperation Project between China and Singapore: Suzhou, Tianjin and Chongqing", *Reform*, 2016, No.1, P52-63

<sup>273</sup> Wei Ping, Zhou Fengjun, "The Jurong Model of Singapore Industrial Park and Its Implications for China", *Asia-Pacific Economic Review*, 2017, No.1, P97-102

was largely completed with covering 8 square kilometers<sup>274</sup>.

### **Part C: Summary of key features**

2 Features can be summarized from SIP. Firstly, as the first industrial park jointly developed by the Chinese and a foreign government, its characteristic highlight is the collaborative construction and efficient communication between both sides. Collaborative construction refers to the joint developer and builder of the park from both sides. Efficient Communication refers to the unique communication mechanisms, which includes a joint steering council (co-chaired by the deputy prime ministers of both countries), a working committee (formed by Suzhou government and Singapore's Ministry of Trade and Industry) and the mechanism for daily communication and execution (formed by SIP administrative committee and Singapore's Software Project Office of the Ministry of Trade and Industry)<sup>275</sup>.

The second feature is about the profits of SIP. In 1994, alongside the construction of SIP, the Suzhou municipal government merged four nearby towns to form a new administrative district. The SIP administrative committee was then designated as both the park's operator and the district's administrative body. This structure has created two advantages. (1) The dual role of the park operator as the local administrative body allowed for more targeted policies and services, such as simplified administrative approvals to facilitate business operations of the parks and enterprises. (2) Public expenditures in the district are covered by SIP administrative committee due to its dual role, while tax revenues from enterprises inside the park are taken by SIP administrative committee, too. This created a strong incentive for the operator to support businesses in SIP, as the more profitable the enterprises, the higher the park (also the district)'s revenue.

### **7.2.3 Case Study in China: Hangzhou High-Tech Zone (HHTZ)**

#### **Part A: Introduction**

HHTZ is located in Hangzhou, Zhejiang Province, China. Established in 1990, HHTZ is one of the state-level hi-tech industrial zones of the first batch approved by the State Council. The activation block is located in the original institutes and colleges district to the north of the Qiantang River. It is not only the birthplace of the High-Tech Zone but also the innovation source of high and new technology as well as the large incubator of small and medium-size tech-based enterprises<sup>276</sup>.

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<sup>274</sup> SIP website, [https://www.sipac.gov.cn/szgyyq/jzyg/common\\_tt.shtml](https://www.sipac.gov.cn/szgyyq/jzyg/common_tt.shtml). Last visit: 2025.01.18

<sup>275</sup> SIP website, [https://www.sipac.gov.cn/szgyyqenglish/sino/list\\_tt.shtml](https://www.sipac.gov.cn/szgyyqenglish/sino/list_tt.shtml). Last visit: 2025.01.18

<sup>276</sup> HHTZ website, [https://www.hhtz.gov.cn/art/2024/12/10/art\\_1487272\\_59070453.html](https://www.hhtz.gov.cn/art/2024/12/10/art_1487272_59070453.html). Last visit: 2025.01.18

In 2023, HHTZ achieved a GDP of 246.79 billion RMB<sup>277</sup>. Currently, the industrial park has developed an industrial chain centered on network information technology. It has established an "Internet+" industry cluster, with major companies such as Alibaba, Geely Group, and NetEase (Hangzhou) playing a key role<sup>278</sup>.

### **Part B: Development process**

The Rise of National High-Tech Zones in China. After China's reform and opening up in 1978, the country began experimenting with various types of industrial parks with different functions. In 1979 China's first export-oriented economic development zone was established in Shekou, Guangdong Province. In 1984, China's first economic and technological development zone was established in Dalian, Liaoning Province. In 1988, China's first national high-tech industrial development zone was established in Beijing, it has another name of ZhongGuanCun. Since then, various types of industrial parks, including national high-tech zones, have developed rapidly. From 1988 to 1991, 27 new national high-tech zones were established, including Hangzhou High-Tech Zone's establishment during this period. From 1992 to 2002, after Deng Xiaoping's Southern Tour Speeches in 1992, another 25 national high-tech zones were added<sup>279</sup>.

HHTZ focused on cutting-edge and promising high-tech industries from the beginning. Over time, it developed with six core industries, telecommunications equipment manufacturing, software and its service outsourcing, integrated circuit design, digital television, animation and gaming, as well as E-commerce<sup>280</sup>. With the rise of digital economy and artificial intelligence in recent years, Hangzhou High-Tech Zone has gradually made digital economy as its core development focus<sup>281</sup>.

Similar to SIP, Hangzhou government merged the towns near the Hangzhou High-Tech Zone in 1996, to create a new administrative district called Binjiang. The management systems of Hangzhou High-Tech Zone and Binjiang District were adjusted in Jun. 2002, and "two names but one leadership" system was implemented<sup>282</sup>.

### **Part C: Summary of key features**

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<sup>277</sup> Zhejiang Province government website, <http://data.tjj.zj.gov.cn/page/web/index.html#/dataProductManager?id=330f13742a3a40a5a3e1d3c111917bfd>. Last visit: 2025.01.18

<sup>278</sup> Introduction of HHTZ, [https://www.cac.gov.cn/2018-08/21/c\\_1123301250.htm](https://www.cac.gov.cn/2018-08/21/c_1123301250.htm). Last visit: 2025.01.18

<sup>279</sup> Introduction of HHTZ, <https://tdi.tongji.edu.cn/61/b6/c25210a221622/page.htm>. Last visit: 2025.01.18

<sup>280</sup> Jia Jianying, "Introduction of HHTZ", *Science & Technology Industry of China*, 2007, No.11, P38-46

<sup>281</sup> Introduction of HHTZ, [https://mp.weixin.qq.com/s?\\_\\_biz=MzA5MTgzOTMyNA==&mid=2651335778&idx=1&sn=c8f7091a518ad2714a55097056cbb5fa&chksm=8b8ac251bcfd4b47288e3ef77e0fae9d9f80aee31b30eeb88b3d105c00d82143fe5078cd0881&scene=27](https://mp.weixin.qq.com/s?__biz=MzA5MTgzOTMyNA==&mid=2651335778&idx=1&sn=c8f7091a518ad2714a55097056cbb5fa&chksm=8b8ac251bcfd4b47288e3ef77e0fae9d9f80aee31b30eeb88b3d105c00d82143fe5078cd0881&scene=27). Last visit: 2025.01.18

<sup>282</sup> HHTZ website, [https://www.hhtz.gov.cn/art/2024/12/10/art\\_1487272\\_59070453.html](https://www.hhtz.gov.cn/art/2024/12/10/art_1487272_59070453.html). Last visit: 2025.01.18

2 Features can be summarized from Hangzhou High-Tech Zone. The first is that the park has always focused on high-tech industries as its primary development direction. The park commits to developing cutting-edge industries from the very beginning. That's why the park chose the location near 16 colleges and universities, 19 natural science and technology research institutions, and 9 national key laboratories<sup>283</sup>. This is different from the Suzhou Industrial Park, which focuses on attracting more multinational companies to invest in China and drive local industrialization. In contrast, Hangzhou High-Tech Zone focuses on incubating Chinese enterprises. Through a combination of incubators and venture capital, it promotes the development and growth of IT and digital companies. For example, the headquarters of well-known companies like Alibaba and Yushu Technology are located within the park.

The second is that the profit model of Hangzhou High-Tech Zone is similar to that of SIP, with a large portion of its revenue coming from taxes paid by companies within the park. After the merger of the two districts in 2002, the industrial park (as the administrative body of the district) is responsible for providing public services within the district. At the same time, it can also collect taxes from the businesses operating within the park.

#### **7.2.4 Characteristics of Domestic Sustainable Profitability in China**

In summary, there are significant differences between domestic and overseas industrial parks in achieving sustainable profitability. In China, local governments establish independent administrative districts that include the industrial parks. This arrangement allows the park operators to also serve as the administrative body of the district. On one hand, the taxes collected from enterprises in the park contribute to the district's fiscal revenue. On the other hand, the park operator (who is also the local administrative body) is responsible for public services and urban development within the district. One benefit of this model is that it strongly incentivizes park operators to better serve the enterprises, as the park operator's revenue increases in proportion to enterprises' profitability.

Nevertheless, the experience of domestic industrial parks in China, particularly in promoting industrial clustering, is still highly valuable for overseas industrial parks to learn from. Whether it's SIP (which focuses on attracting foreign investment), or HHTZ (which incubates emerging technology companies), both parks share the common approach of intentionally concentrating

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<sup>283</sup> Introduction of HHTZ, [https://mp.weixin.qq.com/s?\\_\\_biz=MzA5MTgzOTMyNA==&mid=2651335778&idx=1&sn=c8f7091a518ad2714a55097056cbb5fa&chksm=8b8ac251bcfd4b47288e3ef77e0fae9d9f80aee31b30eeb88b3d105c00d82143fe5078cd0881&scene=27](https://mp.weixin.qq.com/s?__biz=MzA5MTgzOTMyNA==&mid=2651335778&idx=1&sn=c8f7091a518ad2714a55097056cbb5fa&chksm=8b8ac251bcfd4b47288e3ef77e0fae9d9f80aee31b30eeb88b3d105c00d82143fe5078cd0881&scene=27). Last visit: 2025.01.18

more resources to provide high-quality services for the most promising industries. This helps foster industrial clustering within the park, which make sustainable profitability much easier to attain.

Based on this, the features of industrial clustering in domestic industrial parks in China can be summarized in the following three points.

Firstly, the function to gather resources efficiently. This function is especially important for China, as the country's rapid development with latecomer advantage is inseparable from this function of industrial parks. To some extent, industrial parks and development zones in China have become important tools for the government to efficiently mobilize resources<sup>284</sup>. Furthermore, the prerequisite for promoting industrial cluster is their ability to concentrate all the resources around the leading industry of the park.

Secondly, the support from local governments. The well-developed industrial parks in China not only gather all resources to support the leading industry but also receive great support from local governments. More importantly, the government support is not enforced through direct intervention but realized through performance appraisal which links the economic development of industrial parks to the evaluation of officials and administrators. In some area, this is even regarded as the most important performance indicator. This has resulted in all local resources and government staff prioritizing the development of the industrial park. The most representative case is the park in Foshan from Guangdong Province, in the book "The Foshan Miracle" describes the government staff as "entrepreneurial officials" or "economic officials."<sup>285</sup>

Thirdly, accurate identification of the leading industry in Park. The sustainable development of industrial parks relies on the first two points above, but the fundamental premise is that the development of the park must be in the right direction. Only by clearly identifying the most promising and achievable leading industries can it provide a direction where all the concentrated resources and government support should focus on. This is difficult for Chinese enterprises and the Chinese government because China is a late developer, lacking experience in technology development, development planning and facing external challenges. Industrial parks, however, seem to be a suitable of identifying leading industries, with a good understanding of the Chinese government's development plans and a good understanding of the common needs of companies. This makes it possible for industrial parks to not only identify leading industries, but also have the

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<sup>284</sup> Ding Xuedong, "China's transformation from "world factory" to international production capacity cooperation - China's rise in the global production value chain", *Globalization*, 2015, No.7, P12-20

<sup>285</sup> Zhang Yansheng, Xiao Geng, Luo Xiangguo, *The Future of China: The Foshan Model*, Beijing: Citic Press Corporation, 2017, P23-24

capacity to allocate sufficient resources and policy support to promote these industries. This is also beneficial to the Chinese government, as it is more effective in implementing development plans in this way.

### **7.3 Sustainable Profitability of Overseas Industrial Parks**

Successful planning and efficient implementation of the plan play a crucial role in sustainable profitability of industrial park. But the current problem faced by China's overseas industrial parks is that the lack of sufficient experience has led to a large number of uncertainties in both planning and implementation. Based on this, the experience of domestic industrial parks in China could potentially help address the aforementioned shortcomings.

As mentioned above, domestic industrial parks in China have played a significant role in promoting industrial clustering, exhibiting three key characteristics, including the function to gather resources efficiently, the support from local governments as well as the accurate identification of the leading industry in Park. The purpose of this section is to better understand which domestic experiences overseas industrial parks can learn from, by comparing the differences in these three characteristics between domestic and overseas parks, and to help overseas parks develop their own unique approach to industrial clustering, which plays an important role in achieving sustainable profitability.

#### **7.3.1 Challenges to Sustainable Profitability**

Challenges in Site Selection. The better the site selection, the more likely the success of an overseas industrial park, but this also means that the selection process needs to be more thorough and comparative consideration. This is particularly challenging for the inexperienced investors of China's overseas park. As a matter of fact, there are some problems that have already emerged due to the unreasonable site selection. A representative problem is that several China's overseas industrial parks with similar positioning and functions are located in the same area or among the neighboring countries. As a result, the price war because homogenized competition has eventually led to lower revenues of the parks and a lack of sufficient funds to maintain operations and subsequent development. Scholar Zhang Shiguo suggests that site selection for overseas industrial parks should consider factors such as transportation, resources, supply chains, industrial characteristics, and market coverage<sup>286</sup>. Scholar Xun Kening further elaborates on four detailed factors to be considered in site selection: (1) Transportation and logistics conditions. It is necessary

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<sup>286</sup> Zhang shiguo, "Several ideas for developing the construction of overseas economic and trade cooperation zones", *Foreign Business*, 2007, No.1, P20-21

to conduct more comprehensive investigations and selections in the destinations of investment, especially in countries with relatively underdeveloped infrastructure. (2) Assessment of the local industrial conditions. It is needed to evaluate the alignment between the host country's industrial development level and Chinese competitive advantage industries. The site selection of the industrial parks should first focus on those countries and regions with a higher economic development level and strong capacity to absorb Chinese industrial transfer. (3) Assessment of the talent market. It is needed to thoroughly investigate the quantity and quality of the local labor force. This will help the industrial park to recruit more easily the suitable skilled talents after its construction. (4) Assessment of the local political and social conditions. The site selection should be in the countries and regions with stable political and social conditions<sup>287</sup>.

Challenges in Funding. Overseas industrial parks face two main funding issues: insufficient funding sources and the too long paid back period. (1) The insufficient funds and difficulties in financing. Guo Baihong explained that the difficulty in obtaining overseas financing lies in two aspects. One is the fact that China's current financial policies for investment and lending model of Chinese commercial banks are not applicable to the investment of overseas industrial parks. Two is the fact that the local financial institutions in the host countries have certain restrictions on Chinese investors<sup>288</sup>. This is particularly important for the overseas industrial parks' investors, who not only have to invest a large amount of money at once during the construction period, but also need a large amount of money to support the operation and future development<sup>289</sup>. (2) The long period of paid back. Although China's overseas industrial parks have currently found ways to realize profitability, these do not help the parks to become profitable in the short term. A representative profit model is that the parks make profits by leasing factory buildings, commercial office buildings, and selling industrial land after they finish the land purchase, infrastructure construction, and standard factories construction<sup>290</sup>. But the prerequisite of this is that only a sufficient number of enterprises to enter the industrial park, as discussed in Chapter Six. In addition, some industrial parks have been further weakened by homogenized competition and price wars in the profitable revenues.

Challenges in Operational Capabilities. (1) The operators of China's overseas industrial parks lack

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<sup>287</sup> Xun Kening, "New opportunities for the development of overseas parks under the background of the 'Belt and Road'", *Theory Journal*, 2015, No.10, P46-51

<sup>288</sup> Guo Baihong, "Research on China's Overseas Economic and Trade Cooperation Zones' Risk Prevention of under BRI Strategic Framework", *Modern Management Science*, 2018, No.8, P55-57

<sup>289</sup> Zhu Nina, Fan Dan, "Research on China's Overseas Economic and Trade Cooperation Zones", *Beifang Jingmao*, 2017, P11-17

<sup>290</sup> Lu Hongyan, "Experience and Enlightenment of the Development of China's Overseas Economic and Trade Cooperation Zones", *Foreign Economic Relations & Trade*, 2013, No.10, P7-10

sufficient experience and capital, especially when lack of successful overseas cases. Even some operators are reluctant to fully fulfill their responsibility in operation and coordination, because they are concerned that some proactive and creative operational measures may bring significant risks to the industrial park and the enterprises inside<sup>291</sup>. (2) The high demand for communication ability with the local society. Overseas industrial park operators not only need to coordinate among enterprises, but also need to coordinate the enterprises with local society. This requires a good understanding of the local language and culture as well as a great deal of experience and time. For example, the operators need to coordinate the Chinese enterprises and local workers. For example, some industrial parks face challenges in coordinating between park enterprises and local communities or between enterprises and local employees due to language and cultural barriers<sup>292</sup>. (3) The high demand for communication ability with the Local Governments. The Chinese government emphasizes on investing in overseas industrial parks, signing memorandums or cooperation agreements with some countries to promote such investments. These agreements reflect the central government's intentions from both sides, but it remains uncertain whether local governments will actively implement these agreements.

### **7.3.2 Domestic and Overseas Comparison in the First Feature of Domestic Industrial Clustering**

As mentioned above, the first characteristic of sustainable profitability of domestic industrial parks in China is **the function to gather resources efficiently**. Overseas industrial parks also exhibit the similar function. But domestic parks achieve resource concentration primarily through policy support, while overseas parks rely more on the site selection to make better use of resources. This means that overseas parks must comprehensively consider factors such as transportation, land prices, labor markets, and raw materials in their site selection, placing higher demands on the planning and positioning capabilities of overseas park investors.

During the development process, overseas industrial parks also developed two distinct aspects in this function from domestic parks. (1) Resource pooling of overseas industrial parks is mainly centered on the recruitment of local labor. And to better achieve this, the industrial parks are planning and actively promoting the attraction of more talent and skilled workers by building local vocational and technical schools, residential areas and shopping centers. (2) China's overseas

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<sup>291</sup> Zhang Yin, "Research on the Development Status of China's Overseas Economic and Trade Cooperation Zones", *China Journal of Commerce*, 2018, No.22, P66-67.

<sup>292</sup> Zou Haofei, Duan Jingxin, "Overseas cooperation zones convey new ideas of Chinese investment", *China Investment*, 2015, P33-37; Bo Wenguang, Chen Lulin and Hu Yi, "Research on the Sustainable Development of China's Overseas Economic and Trade Cooperation Zones under the Belt and Road Initiative", *Journal of Chang'an University*, 2018, Vol.20, No.4, P64-74

industrial parks are not only to gather production resources, but also to realize the overseas concentration of Chinese enterprises. In government documents and academic literature, China's overseas industrial parks are expected to become **a platform for Chinese SMEs to be concentrated overseas**, because they believe that this can help overseas investment of Chinese enterprises, which lack experience in overseas investment and are located at the middle and lower ends of the global industrial chains. The description "overseas industrial parks are important platforms for Chinese enterprises to go abroad together" has been widely used by many scholars and officials to describe the function of China's overseas industrial parks<sup>293</sup>. To contrast, domestic industrial parks in China are not expected to cluster enterprises and will declines the enterprises which are unrelated to the leading industry of the park.

### **7.3.3 Domestic and Overseas Comparison in the Second Feature of Domestic Industrial Clustering**

The second characteristic enabling sustainable development is **the efficient support from local governments**. In China, some local governments' support for industrial parks is not superficial but with practical actions. The most representative way is to provide support by performance appraisal which links the economic development of industrial parks to the evaluation of officials and administrators, this is even regarded as the most important performance indicator.

However, this is not the case for overseas industrial parks, where local governments' performance appraisal does not prioritize supporting park development. Moreover, in the interviews, some Chinese entrepreneurs and park representatives have noted that some local governments are not particularly interested in the benefits brought by Chinese investments, such as increased the local tax revenue or employment, as these are not critical indicators for officials' promotions.

Additionally, there are indeed many challenges in governing overseas industrial parks by local governments. The primary reason is that the host country may lack specific policies and laws for industrial parks. As a result, the local governments can only use general policies and laws, which are designed for enterprises, to govern the industrial park. Even when conflicts arise between the park and the local society (such as the local workers or the local communities), local governments may find it challenging to mediate and coordinate<sup>294</sup>.

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<sup>293</sup> Li Chunding, "The construction of overseas economic and trade cooperation zones and the 'going out' of Chinese enterprises", *Foreign Investment in China*, 2008, No.8, P64-66; Zou Haofei, Duan Jingxin, "Overseas cooperation zones convey new ideas of Chinese investment", *China Investment*, 2015, P33-37; Pang Chaoran, Huo Jianguo, "Exploration of the theoretical framework for the development of overseas economic and trade cooperation zones and summary of China's practice", *Globalization*, 2019, No.4, P19-28

<sup>294</sup> Guo Baihong, "Research on China's Overseas Economic and Trade Cooperation Zones' Risk Prevention of

Therefore, China's overseas industrial parks have begun seeking more external support when they receive less local government support than that of domestic parks. This is mainly reflected in two aspects. (1) Instead of waiting for policy support, overseas industrial parks have taken the initiative to strengthen communication with local governments in order to implement the cooperation agreements between China and these countries. This is because most of the countries in where the parks are located has good trade relations with China and are also as partners countries of BRI, thus both sides have signed agreements to promote investment cooperation, including industrial parks. Moreover, the Chinese enterprises within the parks particularly need the parks to represent them in communication with local governments, as they worry that unfamiliarity with local political systems, policies, languages, and cultures might lead to miscommunication. As a result, communication between the industrial park and the local government has proven more effective in reflecting common problems encountered by the enterprises, and thus seeking more targeted government support.

(2) Overseas industrial parks should also take the initiative to strengthen communication with local enterprises and financial institutions, so as to provide more high-quality services for Chinese enterprises in the industrial parks. It is especially noteworthy that the overseas industrial parks in Southeast Asia pay much attention to contacting and communicating with local overseas Chinese and Chinese entrepreneurs who have invested there for many years, hoping to get more professional advice and support from them.

#### **7.3.4 Domestic and Overseas Comparison in the Third Feature of Domestic Industrial Clustering**

As mentioned above, the third characteristic of sustainable development in domestic industrial parks is the **accurate identification of the park's leading industry**. Only by clearly identifying the most promising and achievable leading industries can it provide a direction where all the concentrated resources and government support should focus on. And also, only in this way can industrial parks realize strict access standards for enterprises which are related to the leading industries. The most representative is that China has realized the rapid development of internet enterprises through high-tech industrial parks. Additionally, this approach has brought an unexpected benefit: industrial parks have become effective communication bridges between the government and enterprises. On the one hand, the parks can represent the enterprises in collectively expressing their common needs and challenges. On the other hand, instead of directly

intervening, the government feels that through industrial parks it can better implement development plans and optimize the industrial structure.

However, the operators of overseas industrial parks cannot play the dominant role in industrial cluster. In contrast to domestic industrial parks, overseas park operators receive less policy support and, more importantly, lack sufficient confidence and judgment recognizing the most promising industry in the host country. As a result, they cannot identify the leading industry of the overseas industrial park like domestic park operators. This creates a dilemma for the operators of overseas industrial parks: without a clearly defined leading industry, the park cannot achieve sustainable development; but if these operators, who lack sufficient understanding of the host country's future industrial planning, hastily deciding the leading industry may pose a significant risk. It means that if they choose the wrong leading industry, it could lead to catastrophic consequences for the entire park and the enterprises inside.

Moreover, there is a particularly noticeable phenomenon in interviews. The overseas park operators not only have difficulties in identifying the leading industry, but also even try to avoid making such high-risk decisions, to prevent catastrophic risks. As a result, China's overseas industrial parks currently exhibit a highly fragmented industrial structure<sup>295</sup>.

To sum up, this allows overseas industrial parks to form their own path to sustainable development. Unlike domestic parks which achieve sustainability through industrial cluster, overseas parks aim to attract a sufficient number of enterprises to achieve sustainability. (1) With the coordination of the industrial parks, the enterprises can better share resources and risks. The more enterprises enter the park, the more resources can be shared and the less risk each enterprise needs to bear. (2) By attracting a large number of enterprises, the park can increase its overall scale and value to the local area, such as boosting local tax revenue. This, in turn, can help negotiate more favorable policy support from the local government. In this way, by offering higher-quality infrastructure and services, the park can attract more enterprises to enter<sup>296</sup>.

## 7.4 Research Design for Sub-Question Three

Chapters 5 to 7 have formed the interviewees and interview questions based on sub questions 1,

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<sup>295</sup> Guan Lixin, "Comparison and Inspiration of Overseas Industrial Parks between China and Singapore", *Journal of International Economic Cooperation*, 2012, No.1, P57-62

<sup>296</sup> Zhou Mi, "Overseas Economic and Trade Cooperation Zone: An Important Platform for the Sustainable Development of Chinese Enterprises", *International Project Contracting & Labor Service*, 2017, No.10, P26-30; Qi Xin, Yang Chao, "Discussion and Suggestions on Several Issues in the Construction of Overseas Economic and Trade Cooperation Zones", *Intertrade*, 2018, No.6, P30-33, 66

2, and 3. Finally, in Chapter 8, all interview questions will be organized according to the interviewee group, with a complete itinerary of interview questions.

The research on sub-question 3 will be based on the interview with four groups. (1) Investors and operators of domestic industrial parks in China. (2) Investors and operators of four studied overseas industrial parks. (3) Chinese scholars or officials in this field. (4) Enterprises managers within overseas industrial park.

The interview questions for sub-question 3 are formed as follows.

Chapter 7	Respondents and Questions
Question 1-5	<b>Investors and Operators of Domestic Industrial Parks in China</b>
	<p>Q1: Introduce the process of achieving sustainable profitability in domestic industrial parks in China.</p> <p>Q2: Summarize the successful experiences of sustainable profitability in domestic industrial parks in China. Which of these experiences can be applied to overseas industrial parks?</p> <p>Q3: What difficulties and challenges domestic industrial parks face in achieving sustainable profitability (or industrial clustering, as some domestic respondents consider sustainable development refers to industrial clustering)? What adjustments were made in response?</p> <p>Q4: How do you perceive your authority and responsibilities as an operator?</p> <p>Q5: Are you familiar with the characteristics of sustainable profitability in overseas industrial parks? How do they differ from domestic ones?</p>
Question 6-9	<b>Investors and Operators of Overseas Industrial Parks</b>
	<p>Q6: How does your industrial park generate revenue? Is it sustainable?</p> <p>Q7: What are the most effective ways to promote sustainable profitability in overseas industrial parks?</p> <p>Q8: As an operator of an overseas industrial park, how do you perceive your role in promoting sustainable profitability?</p> <p>Q9: Are you familiar with the sustainable profitability models of domestic industrial parks in China? Are there any aspects that can be adopted overseas?</p>
Question 10-13	<b>Chinese Scholars or Officials in this Field</b>
	<p>Q10: What is the current situation and key characteristics of sustainable profitability in China's overseas industrial parks?</p> <p>Q11: What challenges do China's overseas industrial parks face in achieving</p>

	<p>sustainable profitability? What domestic experiences can provide inspiration?</p> <p>Q12: What role do operators play in achieving sustainable profitability of overseas industrial parks?</p> <p>Q13: How can the Chinese government support the sustainable profitability of overseas industrial parks?</p>
Question 14-18	<p><b>Enterprises Managers within Overseas Industrial Park</b></p>
	<p>Q14: Do you pay attention to the sustainable profitability of the industrial park? Will it be beneficial to you?</p> <p>Q15: From an enterprise’s perspective, what are the key characteristics of sustainable profitability in China’s overseas industrial parks?</p> <p>Q16: From an enterprise’s perspective, what challenges do China’s overseas industrial parks face in achieving sustainable profitability?</p> <p>Q17: How would you evaluate the role of industrial park operators in achieving sustainable profitability?</p> <p>Q18: What role can enterprises play in achieving sustainable profitability of the overseas industrial parks?</p>

## Chapter 8 Conclusion

### 8.1 Interview Respondents and Questions

#### 8.1.1 Identify the Interview Respondents

This study focuses on four China's overseas industrial parks in Southeast Asia that have been certificated of Overseas Economic and Trade Cooperation Zone (OETCZ): Chinese Rayong Industrial Zone (TCR), China-Indonesia Economic and Trade Cooperation Zone (Kawasan Industri Terpadu Indonesia China, KITIC), Longjiang Industrial Park (LJIP) and Vietnam-China Economic and Trade Cooperation Zone (VCEP).

To ensure comprehensive analysis in Chapters 5 to 7, the study identified five respondent groups and conducted 60-120 minutes interviews with each participant.

The first group consists of the Investors and Operators of Overseas Industrial Parks, with a total of 11 respondents. Specifically, No.1-3 are from TCR, No.4-5 are from KITIC, No.6-8 are from LJIP, and No.9-11 are from VCEP.

The second group consists of Enterprises Managers within Overseas Industrial Park, with a total of 15 respondents. Specifically, No.1-5 are from TCR, No.6-8 are from KITIC, No.9-11 are from LJIP, and No.12-15 are from VCEP.

The third group consists of Members from Chinese Chamber of Commerce near Overseas Industrial Parks, with a total of 12 respondents. Specifically, No.1-3 are from the Chinese Chamber of Commerce in Bangkok, near TCR; No.4-7 are from the Chinese Chamber of Commerce in Jakarta, near KITIC; No.8-9 are from the Chinese Chamber of Commerce in Ho Chi Minh City, near LJIP; and No.10-12 are from the Chinese Chamber of Commerce in Hanoi, near VCEP.

The fourth group consists of Chinese Scholars or Officials in this Field, with a total of 11 respondents. Specifically, No.1-5 are Chinese scholars and experts, including two from Chinese universities, two from research think tanks, and one from the China Council for the Promotion of International Trade. No.6-11 are Chinese government officials, including three from the Ministry of Commerce, one from the National Development and Reform Commission, and two from the Hangzhou municipal government.

The fifth group consists of Investors and Operators of Domestic Industrial Parks in China, with a total of 7 respondents. Specifically, No.1-4 are from Suzhou Industrial Park (SIP) and No.5-7 are from Hangzhou High-Tech Zone (HTTZ).

### 8.1.2 Interview Questionnaire

Research questions were formed in each chapter from 5 to 7. Here, the complete interview questionnaire will be formed according to the five respondent groups.

#### Interview Questionnaire both from Chapter 5-7 & G1-G5

Respondent Groups	Question from Chapter 5	Question from Chapter 6	Question from Chapter 7	Total
G1	Chapter 5 Q1-Q10	Chapter 6 Q7-10	Chapter 7 Q6-9	18
G2	None	Chapter 6 Q1-6	Chapter 7 Q10-14	11
G3	Chapter 5 Q11-13	Q11-15	None	8
G4	Chapter 5 Q14-15	None	Chapter 7 Q15-18	6
G5	None	None	Chapter 7 Q1-5	5
<b>Total</b>	15	15	18	48

#### Complete interview questionnaire according to the five respondent groups

Group 1: Investors and Operators of Overseas Industrial Parks		
	G1Q1	Self-introduction and description of the overseas industrial park investment process.
	G1Q2	Detailed introduction about the investors.
	G1Q3	What are the reasons and confidence behind investing in overseas industrial parks? For example, market demand or policy incentives?
	G1Q4	What are the main reasons for choosing the "Park-in-Park" model or the " Non-Park-in-Park" model?
	G1Q5	How has the chosen model helped during the construction process?

G1Q6	How has the chosen model helped during the operation process?
G1Q7	What is the biggest challenge of the chosen model? Is it unique to the "Park-in-Park" model or the " Non-Park-in-Park" model?
G1Q8	So far, how would you comprehensively evaluate the model you have chosen?
G1Q9	What is the impact of Chinese policies and initiatives (such as OETCZ policy, BRI, etc.) on overseas industrial park investment?
G1Q10	When choosing a model, were investors influenced by external factors such as the local investment environment, the degree of internationalization of nearby cities, or transportation accessibility? How significant was this influence?
G1Q11	Aside from the impact of the existing industrial parks mentioned in G1Q7, what other challenges do overseas industrial parks face in attracting enterprises?
G1Q12	Do you agree with Perspective One in Chapter 6, which compares the cost advantages of investment in inland China and investment in Southeast Asia?
G1Q13	Do you agree with Perspective Two in Chapter 6, which suggests that enterprise's short-term and long-term goals help explain its decision to choose a China's overseas industrial park?
G1Q14	Compared to other industrial parks, what is the main attraction of China's overseas industrial parks for enterprises?
G1Q15	How does your industrial park generate revenue? Is it sustainable?
G1Q16	What are the most effective ways to promote sustainable profitability in overseas industrial parks?

	G1Q17	As an operator of an overseas industrial park, how do you perceive your role in promoting sustainable profitability?
	G1Q18	Are you familiar with the sustainable profitability models of domestic industrial parks in China? Are there any aspects that can be adopted overseas?
<b>Group 2: Enterprises Managers within Overseas Industrial Park</b>		
	G2Q1	Introducing your overseas investment, especially the process of entering the overseas industrial park.
	G2Q2	Did you hesitate when deciding between investment in inland China and investment in Southeast Asia? Did you compare these two?
	G2Q3	Do you agree with Perspective One in Chapter 6, which compares the cost advantages of investment in inland China and investment in Southeast Asia? Does this help explain your decision-making or clarify your future investment strategy?
	G2Q4	What was the biggest difficulty in choosing an overseas industrial park? How did you finally make your decision?
	G2Q5	Do you agree with Perspective Two in Chapter 6, which suggests that the enterprise's short-term and long-term goals help explain its fundamental overseas investment needs and the choice of the industrial park?
	G2Q6	How would you comprehensively evaluate your overseas investment so far?
	G2Q7	Do you pay attention to the sustainable profitability of the industrial park? Will it be beneficial to you?
	G2Q8	From an enterprise's perspective, what are the key characteristics of

		sustainable profitability in China's overseas industrial parks?
	G2Q9	From an enterprise's perspective, what challenges do China's overseas industrial parks face in achieving sustainable profitability?
	G2Q10	How would you evaluate the role of industrial park operators in achieving sustainable profitability?
	G2Q11	What role can enterprises play in achieving sustainable profitability of the overseas industrial parks?
<b>Group 3: Members from Chinese Chamber of Commerce near Overseas Industrial Parks</b>		
	G3Q1	Introducing your overseas investment experience.
	G3Q2	Based on your experience, how would you evaluate the advantages and disadvantages Chinese investors face locally? What are the differences between enterprise investment and overseas industrial park investment?
	G3Q3	Have Chinese policies and initiatives (such as OETCZ policy, BRI, etc.) significantly promoted investment in China's overseas industrial parks?
	G3Q4	What are your investment needs when investing overseas? As an enterprise that has not entered an industrial park, how are your investment needs being met? Do you currently consider joining an industrial park?
	G3Q5	From your perspective, what are the main needs of enterprises within overseas industrial parks? What are the challenges in meeting these needs?
	G3Q6	In terms of investment needs, what are the most noticeable differences between you and enterprises within overseas industrial parks?

	G3Q7	Perspective One in Chapter 6 states that the main purpose of Chinese enterprises investing overseas is to reduce trade costs. Do you agree? Can overseas industrial parks be helpful?
	G3Q8	Perspective Two in Chapter 6 categorizes Chinese enterprise investment needs into short-term and long-term goals. Do you agree? Can overseas industrial parks meet these short-term and long-term needs?
<b>Group 4: Chinese Scholars or Officials in this Field</b>		
	G4Q1	Can overseas industrial parks help China upgrade its position in the global value chain?
	G4Q2	Can the "Park-in-Park" model enhance investor confidence and success rates in overseas industrial park investment?
	G4Q3	What is the current situation and key characteristics of sustainable profitability in China's overseas industrial parks?
	G4Q4	What challenges do China's overseas industrial parks face in achieving sustainable profitability? What domestic experiences can provide inspiration?
	G4Q5	What role do operators play in achieving sustainable profitability of overseas industrial parks?
	G4Q6	How can the Chinese government support the sustainable profitability of overseas industrial parks?
<b>Group 5: Investors and Operators of Domestic Industrial Parks in China</b>		
	G5Q1	Introduce the process of achieving sustainable profitability in domestic industrial parks in China.

	G5Q2	Summarize the successful experiences of sustainable profitability in domestic industrial parks in China. Which of these experiences can be applied to overseas industrial parks?
	G5Q3	What difficulties and challenges domestic industrial parks face in achieving sustainable profitability (or industrial clustering, as some domestic respondents consider sustainable development refers to industrial clustering)? What adjustments were made in response?
	G5Q4	How do you perceive your authority and responsibilities as an operator?
	G5Q5	Are you familiar with the characteristics of sustainable profitability in overseas industrial parks? How do they differ from domestic ones?

## 8.2 Research Results of Chapter 5

### 8.2.1 Main Conclusion

To the sub-question one, whether "Park-in-Park" model contributes to the success of overseas industrial parks' investments, the conclusion is that the "Park-in-Park" model indeed significantly enhances the feasibility and success of overseas industrial parks' investments. Although some issues may arise later, these can be mitigated through early planning and later adjustments.

In interviews with **Group 1 (Investors and Operators of Overseas Industrial Parks, G1 will be used to refer Group 1 in the following)**, they mainly discussed this issue in G1Q3-6. (1) In G1Q3, one investment motivation for overseas industrial park investors is the high market demand for China's overseas industrial parks. (2) In G1Q4, some respondents mentioned one reason for choosing the "Park-in-Park" model. They clearly recognized their shortcomings, such as a lack of investment experience and insufficient understanding of the local business environment. After consulting local Chinese businessmen, Chinese chambers of commerce, and overseas Chinese, they cautiously chose the "Park-in-Park" model. (3) In G1Q4-Q6, by comparing the "Park-in-Park" model with the non-"Park-in-Park" model, many respondents believed that the non-"Park-in-Park" model faced many restrictions and had a high risk of failure. In contrast, the "Park-in-Park" model had a wider application. It could be built quickly for early operation and took advantage of the larger park's infrastructure and services.

Three respondents in **Group 4 (Chinese Scholars or Officials in this Field, G2 will be used to refer Group 2 in the following)** have agreed with “Park-in-Park” model in G4Q2. (1) The “Park-in-Park” model has succeeded in China. Although it cannot be fully replicated, it can still inspire overseas industrial parks. (2) There are already successful cases, especially the case of TCR, which has become a well-known benchmark and demonstration project of overseas industrial parks.

Moreover, one key reason for the high recognition of the "Park-in-Park" model may be that it meets the urgent needs of enterprises for quick overseas investment. (1) In G1Q4, industrial park managers mentioned that during interactions with enterprises, they noticed a common demand among Chinese enterprises for rapid overseas investment. (2) In G2Q4, enterprises interviewees confirmed this. They said that when faced with many industrial parks and unsure which to choose, time, price and partner recommendation were the most practical and direct criteria for decision-making. (3) In G4Q2, a scholar from a Chinese university provided a detailed explanation of this urgency. Chinese enterprises face dual pressure: "manufacturing reshoring" from developed countries and "manufacturing substitution" from developing countries. To stay competitive, they aim to expand overseas as quickly as possible. Since March 2018, with the escalation of the U.S.-China trade conflict, this need has become even more pressing. As a result, China's overseas industrial parks, built rapidly under the "Park-in-Park" model, have become a priority choice for these companies.

## **8.2.2 Other Findings**

### **Insight 1: "Park-in-Park" model still has limitations**

One obvious drawback of the "Park-in-Park" model is that it limits the independence of industrial park operations. In G1Q6-Q7, some respondents in G1 mentioned restriction on this model. (1) The risk of increasing costs faced by China’s overseas industrial parks, as land rent and service fees are determined by the existing park. They can increase fees at any time.

(2) The industrial structure of overseas industrial parks is constrained by the industrial structure of the existing industrial park. For example, if most businesses in the larger industrial zone are engaged in auto parts processing, the China’s overseas industrial park will struggle to attract enterprises from other manufacturing sectors, as the location offers little support or benefits for them. This may completely disrupt the overall planning, positioning, and potential cooperation relationships of overseas industrial parks.

Some ways to mitigate these risks were also discussed. (1) In G1Q7, it was mentioned that successful "Park-in-Park" models usually have long-term cooperation with existing industrial park,

For example, the developer of the TCR, Holley Group, had already established a long-term partnership with the developer of the existing park, the Amata Group. The key is to spend time and effort identifying mutual benefits with the existing park's investor. Achieve a win-win situation not only helps to reduce land rental and service costs, but also enables both sides to seek common benefits. (2) In G1Q7, G1Q11, and G1Q14, respondents from KITIC mentioned that they are attempting to shift their investment strategy. They are now focusing more on leveraging the advantages of the existing industrial zone to attract world famous foreign multinational corporations, rather than limiting themselves to only accepting Chinese enterprises.

### **Insight 2: Other Key Factors for overseas industrial parks' success**

The first is confirming the enterprises entering the industrial park in advance. This refers to the situation that certain Chinese enterprises have already expressed a clear intention to enter the park during the planning phase or before the construction of the overseas industrial park. These enterprises usually come from the same Chinese city or province with industrial park investors. In G2Q4, some enterprises managers in TCR mentioned that they and the park's investors are both from Zhejiang Province, China, which led them to decide their selection of this industrial park. Meanwhile, some enterprises managers in VCEP pointed out that, in addition to the same hometown (Shenzhen, China) with this park's investor, a more significant factor was that the industrial park investor is the public enterprises from Shenzhen. This further solidified their decision to enter the park. In G1Q11, interviewees stated that their optimism because they already knew that some enterprises from their city or province in China will enter in the park.

The second is support from both the Chinese and host country governments. This was discussed in interviews with Group 3 (Members from Chinese Chamber of Commerce near Overseas Industrial Parks, **G3 will be used to refer Group 3 in the following**) and Group 4 (Chinese Scholars or Officials in this Field, **G4 will be used to refer Group 4 in the following**). Some respondents mentioned, for the success of overseas industrial parks, government support is much more important than the "park-in park" model. In G3Q3 and G4Q2, further government support was emphasized: (1) Support from the Chinese government. This does not refer to direct funding but rather streamlining investment procedures and improving coordination among Chinese government departments. (2) Support from host country governments. This involves enforcing bilateral agreements between China and host countries to support overseas industrial parks and Chinese investments.

In G4Q1, some respondents from G4 were optimistic about government support for two reasons: (1) They believe that overseas industrial parks will receive more support from the Chinese

government, as these parks contribute to China's upgrading in the global value chain. (2) They believe that local governments in host countries will also be willing to support China's overseas industrial parks, as Chinese investments bring more capital, technology, and management expertise, driving local industrialization and industrial clustering.

### **8.2.3 Further Research**

#### **Further Research 1: Studying on the " Non-Park-in-Park" Models**

Two overseas industrial parks in Vietnam did not adopt the "Park-in-Park" model, providing insights into alternative approaches. In G1Q6, a respondent from LJIP mentioned that this model does provide greater autonomy during the operational phase, which helps industrial park operators coordinate among enterprises within the park more effectively (with greater authority).

Due to the high investment costs of overseas industrial parks, multiple companies often form a joint company as the investor. During the interviews, one notable case is the investor of LJIP. The author observed that three shareholders of this park have a clear division of responsibilities, which may have contributed to the success of the investment. (1) Shareholder 1 is a Zhejiang entrepreneur with over 20 years of business experience in Vietnam. He was mainly responsible for site selection and maintaining relations with local government and society. (2) Shareholder 2 is a Zhejiang-based enterprise specializing in processing and exporting globally the product of copper alloy tubing. Shareholder 2 was the investor with the smallest financial contribution and gradually reduced its shares after the industrial park was completed. But, at the same time, it established its own factory within LJIP. It reflected that Shareholder 2's ultimate goal was to invest in Vietnam for production. Its participation as an investor in the industrial park was primarily a strategy to reduce the cost and risk of overseas investment. For example, in terms of land costs, the unit price of land acquired by the industrial park is generally lower than what an individual enterprise would pay if investing directly. Because the huge investment of industrial park will get more preferential policies from the local government. To sum up, Shareholder 2's role was not only to cover part of the investment costs but, more importantly, to serve as the leading enterprise within the park. This helped attract its partner enterprises into the park and enhanced coordination among the enterprises within the park. (3) Shareholder 3 was also a company from inland China, but limited information was available to the author. It is only known that this shareholder played a relatively large role in financial contributions.

Therefore, a crucial area for future research is defining the responsibilities of overseas industrial park shareholders. Having more shareholders does not necessarily lead to success. Instead, a clear

division of responsibilities is essential. This factor is separate from the choice of investment model but plays a critical role in successful overseas industrial park investments.

### **Further Research 2: Differences Between Public and Private Enterprises as Industrial Park Investors**

During the study, investor identities were simplified. In fact, some parks are invested in by public enterprises from Chinese cities or provinces, while others are backed by private enterprises. These differences impact objectives, planning, and operations. For example, public enterprises typically have more funding and can plan long-term. Profitability is not an immediate priority, as their main goal is to serve companies from their home cities. A case in point is the Haiphong Industrial Park in Vietnam, which was invested in by a public enterprise from Shenzhen. One of its tasks was to help Shenzhen companies expand into Vietnam.

Enterprises also consider investor backgrounds (the role of investor) when choosing an overseas industrial park. In G1Q6, a respondent from G1 mentioned that in their interactions with enterprises, they felt that these enterprises have more trust in overseas industrial parks where investors are public enterprises. In G2Q4, some enterprises mentioned that one of the main reasons for ultimately choosing the current industrial park is because the investors of the park are public enterprises. They believe that these industrial parks will have greater advantages in terms of funding and policy support.

This study did not pay too much attention to this aspect, but it deserves further research in the future. The author believes that as the development of industrial parks continues, there will be more obvious differences between overseas industrial parks invested by private enterprises and public enterprises.

## **8.3 Research Results of Chapter 6**

### **8.3.1 Main Conclusion**

To the sub-question two, is the matching between the functions of overseas industrial parks and the overseas investment needs of enterprises the main criteria for choosing overseas industrial parks, the conclusion is that the main reason lies in that their perceived (or expected) functions of overseas industrial parks satisfy their fundamental need to invest overseas. This conclusion was drawn from interviews with G1, G2, and G3.

G1 provided a close and relatively objective perspective on understanding the needs of Chinese

enterprises investing abroad. These views primarily reflected in interviews G1Q11-14. (1) In G1Q11, three respondents mentioned that it was not that they did not want to provide more targeted services, but rather that some enterprises themselves were unclear about what they actually needed. (2) In G1Q12, some interviewees mentioned that, based on their understanding, one of the main reasons for the overseas investment of Chinese enterprises within the industrial park, is the advantage of reducing trade costs. But most of these interviewees also believe that the benefits of overseas investment should not be limited to this alone. Instead, they argue that both trade cost reduction and production cost reduction should be considered together as key advantages. (3) The study also examined the decision-making process for choosing an overseas industrial park from the perspectives of short-term and long-term goals. In G1Q13, only two interviewees explicitly stated that short-term and long-term goals of the enterprises are the main decision-making basis for overseas industrial parks selection. They mentioned that some Chinese enterprises opt for more expensive overseas industrial parks because they prioritize factors beneficial to long-term development, such as the local business environment and potential partners. However, the majority of interviewees believed that many enterprises do not have clearly defined short-term or long-term goals, making it difficult to use this perspective to accurately determine their true overseas investment needs. In other words, some enterprises may choose an overseas industrial park by occasionally chance, such as through a recommendation from a business partner. As a result, their decision-making process does not necessarily reflect their fundamental overseas investment needs. (4) In G1Q14, a respondent from LJIP identified a common pattern among some Chinese enterprises: They chose the lowest-cost industrial parks primarily to gain experience in overseas investment and production at minimal expense. Low cost became the most critical selection criterion. This observation provides significant insights into the conclusions in Chapter 6.

In the interviews with G2, the author's strongest impression was that while some enterprises could clearly articulate their true overseas investment needs, others could not. (1) In G2Q2-Q3, some enterprises explicitly stated that their main reason for investing in Southeast Asia was to reduce production costs, trade costs, or both. In contrast, other enterprises mentioned that they had compared investment in inland China and Southeast Asia, but since they could not reach a definitive conclusion, they made small-scale, exploratory investments in both locations before making a final decision. (2) In G2Q4, some respondents stated that trust in the park operator played a major role in their decision to choose an overseas industrial park. This trust stemmed from various factors, such as: the high reputation of park's operator, or decades-long business experience in the host country of the operator, or the shared hometown between the operator and the enterprise. This indicates that the decision-making process does not necessarily reflect all

Chinese enterprises' fundamental overseas investment needs. (3) In G2Q5, some enterprises believed that their decision-making process accurately reflected their true overseas investment needs. But others disagreed, arguing that their decision was not based on short-term or long-term goals. In other words, some enterprises did not know their exact overseas investment needs when choosing an industrial park. They believed that setting so-called long-term goals or defining fundamental needs too early would only limit their flexibility. Instead, they preferred to start overseas investment quickly and define their direction pragmatically by solving challenges along the way. As a result, when their final selection narrowed down to 3-4 China's overseas industrial parks, they made the decision based on simple criteria, such as price, because they felt that the advantages of these parks were essentially the same.

G3 provided a valuable perspective on understanding the investment needs of Chinese enterprises within industrial parks. These chamber members are experienced Chinese businesses engaged in sales, international trade, and other commercial activities overseas, and their extensive experience helps them better assess the investment motivations of industrial park enterprises. (1) In G3Q6, chamber members identified key differences between their own needs and those of Chinese enterprises in industrial parks. Chamber members prioritize continuously increasing their profits in the local market. But Chinese enterprises within the industrial parks have different goals. Their short-term aims to quickly reduce costs through overseas investment and maintain or expand their exports to U.S. and European markets, when the long-term goal is to gain overseas production experience to prepare for future internationalization, help refine their global strategy, and ultimately successfully expand abroad. (2) In G3Q7, chamber members strongly agreed that investing in Southeast Asia lowers trade costs, especially against the backdrop of increasing U.S. efforts to block China's supply chain in recent years. They believed this was a key reason why Chinese enterprises invest in Southeast Asia, as it helps secure existing trade volumes and market share, ensuring that they are not eliminated from global competition. (3) In G3Q8, chamber members—like respondents from other groups—argued that the decision-making process of Chinese enterprises choosing an overseas industrial park does not fully reflect their fundamental overseas investment needs. They suggested that this reasoning may be valid only in theory, but only if enterprises clearly define their short-term and long-term goals.

In summary, the common investment demand among Chinese enterprises expanding overseas may align with what the respondent from LJIP mentioned in G1Q14: that there is indeed a group of Chinese enterprises eager to enter overseas industrial parks quickly, begin overseas production, and accumulate experience as a foundation for their long-term internationalization strategy.(1) In

G1Q14, some respondents explained why Chinese enterprises with this need prefer to enter China's overseas industrial parks. There are some key advantages significantly help enterprises accumulate overseas experience, such as clustering Chinese enterprises overseas geographical, providing a Chinese-language investment and production environment abroad, promoting the risk and benefits sharing among enterprises. All of these are particularly important for small and medium-sized enterprises (SMEs) lacking overseas investment experience. (2) In G1Q5-Q6, responses from the TRC and KITIC also highlighted the benefits of choosing the China's overseas industrial park of "park in park" model. With the infrastructure of the existing industrial park, overseas industrial parks can be developed more quickly, allowing Chinese enterprises to enter and start operations sooner, accelerating their experience accumulation. Additionally, these Chinese enterprises can engage with successful multinational corporations within the larger zone, which not only enhances their overseas experience but also creates opportunities for future partnerships.

### **8.3.2 Other Findings**

#### **Insight: "Give it a try" as a common important fact in decision-making for Chinese enterprises in overseas investments and industrial parks**

During the research, an interesting observation emerged: the author neither heard Chinese enterprises making grand statements about becoming successful multinational corporations nor found them having clear and specific goals for their overseas investments. Instead, some companies' overseas investments appeared less firm and confident than expected, because they are engaged in an exploratory and lack specific goals oriented overseas investment.

The author found that, whether in overseas investment or in choosing an overseas industrial park, the biggest influence on the decision outcome often came from one sentence by the enterprise leader: "We should give it a try." This was a very vague basis for decision-making, yet it was convincing to other decision maker, because they believed it was the only choice for the enterprises at that moment. The reason was that they faced a dilemma. On the one hand, external conditions such as market and costs were changing rapidly, forcing them to take immediate action. On the other hand, they only had a few vague response options but couldn't determine which was the best solution.

In this situation, the best approach for these enterprises is to try out several potential clustering strategies. They might find the answer through real-world application. For the enterprises, this seems to be the most rational and practical choice under their current circumstances. They don't need to worry about missing the best investment opportunity due to a long decision-making

process. At the same time, even if overseas investment fails, it won't have a major impact on the enterprise's headquarters, because these trial investments are small in scale and will not create significantly affect. Additionally, this approach helps enterprises gather more real data and information, ultimately enabling decision-makers to formulate a more suitable internationalization strategy. This explains why, in G2Q3, some enterprises invest in both China's inland regions and Southeast Asia at the same time. They are simply testing the waters. It also explains why, in G2Q4, some Chinese enterprises did not conduct a detailed or comprehensive comparison when selecting an overseas industrial park. Instead, they made quick decisions based on factors like price and partner recommendations. Their goal was just to gain overseas experience through trial investments, so they did not have very specific, clear, or detailed requirements for the industrial park.

At first glance, "give it a try" may seem unscientific or overly bold as a decision-making approach. This mindset may stem from the fact that these enterprises grew during China's rapid economic expansion. It may also have been inspired by the Chinese government's approach during the Reform and Opening-Up period. Although China had great latecomer advantage potential in the late 1970s, Chinese government faced a dilemma. On the one hand, they did not know the right path to turn this potential into reality. On the other hand, they knew they couldn't wait any longer and had to take immediate action, as this latecomer advantage would gradually fade over time. In the end, the Chinese government adopted a similar approach to "Give it a try", it was called "crossing the river by feeling the stones". The first step of this approach was establishing China's first export-oriented economic development zone, the Shekou Industrial Zone in Shenzhen, where located near Hong Kong. This became the prototype for China's economic development zones and industrial parks.

### **8.3.3 Further Research**

#### **Further Research 1: Refining the understanding of enterprises' fundamental needs in overseas investment and their Criteria for choosing industrial parks**

Chapter 6 was expected to answer the question: Why do Chinese enterprises choose a particular overseas industrial park? To explore this, the study attempted to clarify enterprises' fundamental needs in overseas investment from two perspectives and demonstrate that these needs form the core decision-making criteria for selecting an overseas industrial park.

The first perspective compared the advantages of investing in inland China versus overseas (refers to Southeast Asia in this dissertation) to define the macro-level needs of enterprises for overseas

investment. The second perspective examined the short-term and long-term goals in Chinese enterprises' internationalization strategies to determine their specific investment needs.

However, in actual interviews, these two perspectives did not receive much recognition. Even when acknowledged, many respondents still believed they were insufficient to fully understand enterprises' overseas investment needs.

Therefore, the author believes that based on the interviews in this study, adjustments can be made to the two perspectives to improve research in this area. First, Refining Perspective One. Interviews with G1, G2 and G3 have shown that this perspective received some recognition. For example, in G2Q3, some enterprises mentioned that their initial motivation for overseas investment was to reduce costs. However, after the 2018 U.S.-China trade war, their focus increasingly shifted toward reducing trade costs. Additionally, in G1Q12, some respondents pointed out that the biggest debate is whether the main driver of overseas investment is reducing trade costs or production costs. Therefore, Perspective One should be adjusted by conducting a more comprehensive comparative analysis using data. Specifically, from a feasibility standpoint, further research should determine which factor—trade cost reduction or production cost reduction—should be considered the primary driver of overseas investment.

Refining Perspective Two. This perspective has a significant controversy in interviews. Based on the findings of this study, the decision-making process of Chinese enterprises in choosing an overseas industrial park does not fully reflect their fundamental investment needs. Among respondents in G1 and G2, some believed that, in theory, it should represent the fundamental needs. When an enterprise selects an overseas industrial park, it must assume that the park can meet its investment needs both in the short term and long term. However, in practice, this is difficult to achieve because many enterprises may not have clearly defined short-term and long-term goals. This means that researchers need to further define and categorize enterprises' short-term and long-term goals. For example, treating gaining overseas experience as a short-term goal aimed at improving internationalization strategies, while classifying companies that explicitly seek local suppliers as having long-term goals—since this indicates their intention to build an overseas value chain in the host country.

### **Further Research 2: Collecting more data through enterprises surveys**

As mentioned earlier, there is still much work to be done in interviewing and understanding enterprises within China's overseas industrial parks. Given the common need for enterprises to accumulate overseas experience, future research should use more comprehensive and detailed

surveys to collect sufficient data to validate the findings of this study.

For the survey on Perspective One, enterprises leaders will be asked to respond to the following aspects and rate the importance of certain options: (1) Reasons for industrial relocation – rating the importance of factors such as high production costs, trade risks, and declining orders. (2) Motivations for investing inland or overseas – rating factors like market expansion (e.g., more Middle Eastern and Southeast Asian markets in inland China because of BRI), lower production costs, and policy incentives. (3) Comparison of inland and overseas investment advantages – rating the importance of reducing production costs, lowering logistics expenses, and expanding overseas markets. (4) The primary advantage of overseas investment: reducing production costs or trade costs – rating factors such as land costs, production costs, labor costs, logistics costs, and tariffs based on their significance.

For the survey on Perspective Two, enterprises leaders should be asked to respond to the following aspects and rate the importance of certain options: (1) Reasons for entering an industrial park – rating factors such as low land prices, having the park handle communication with the local government, better infrastructure, and preferential tax policies. (2) Goals of overseas investment – rating the importance of reducing production costs, avoiding U.S. trade barriers, expanding overseas markets, and gaining overseas investment experience.

## **8.4 Research Results of Chapter 7**

### **8.4.1 Main Conclusion**

To the sub-question three, whether China's overseas industrial parks have achieved sustainable profitability, or have they found their own ways to achieve sustainable profitability, the conclusion is that although overseas industrial parks have not realized sustainable profitability, they are quite clear about the ways to achieve it.

#### **Part A: Current profitability status and revenue sources**

In G1Q15, G1 respondents stated that China's overseas industrial parks have not yet achieved sustainable profitability. They also provided a detailed explanation and analysis of the current revenue situation of these industrial parks. (1) Land sales and leasing within the industrial parks are the largest source. Overseas industrial parks develop infrastructure to transform previously undeveloped land and farmland into flat, industrial-ready sites, increasing land value. This enables them to generate revenue at the fastest possible rate. (2) Service-based revenue is generated through three key services. Providing consulting services for Chinese enterprises investing overseas

and assisting with investment procedures. Collecting fees for utilities and infrastructure maintenance (e.g., water, electricity, property management). Renting machinery and standard factory buildings. The last one is the largest revenue source within service-based income. Chinese enterprises typically take 1-3 years to construct their own factories, so many of them will choose to rent standard factory from the industrial parks to start production as soon as possible.

In interviews with G2, interviewees stated that they were uncertain about whether these parks had achieved sustainable profitability. As one enterprise manager mentioned in G2Q7, whether an overseas industrial park is sustainably profitable does not concern them, as they are still in the early stages of overseas investment. Their priority is to focus on factory construction, employee recruitment, and training. In G2Q8-Q10, some enterprises discussed the revenue models they had observed in overseas industrial parks. Overall, they believed that the revenue streams of these parks were relatively limited, mainly relying on land sales and standard factory leases, which are not highly sustainable. They suggested that for overseas industrial parks to achieve long-term profitability, they should expand their service offerings, such as machinery maintenance, professional logistics services, and financial lending.

#### **Part B: Pathways to achieving sustainable profitability for industrial parks**

During the interviews, two key pathways for achieving sustainable profitability in industrial parks received the most consensus.

The first key point comes from G1Q16, where some respondents mentioned that profitability can be achieved by offering more customized business services. Ideally, an overseas industrial park should position itself as an indispensable platform for Chinese enterprises expanding abroad by aggregating various resources. To achieve this, as one respondent pointed out in G1Q17, identifying enterprise needs is crucial. This allows the industrial park to provide high-value, customized services, which, despite their premium pricing, would be attractive and essential to enterprises. (2) G2 respondents also recognized this pathway in G2Q8-9. They emphasized that attracting more enterprises and providing specialized, tailored services are key to sustainable profitability.

The second key point comes from G1Q15-18, where respondents from KITIC, LJIP, and VECP discussed profitability models. This approach was inspired by Chinese domestic industrial parks. It is called the "industry-city integration" model. It mainly highlighted that industrial park can drive local industrial development, which in turn leads to geographical population clustering, particularly among workers and their families. This creates opportunities for industrial parks to generate

revenue by developing residential areas, shopping centers, and other commercial facilities to serve this growing community. This idea was further recognized in G5Q2.

In addition, both G4 and G5 suggested learning from the Suzhou Industrial Park model, which is co-managed by Chinese and Singaporean operators. Hence, they recommended that China's overseas industrial parks explore co-development with local governments and enterprises. Increasing the involvement of host country partners in operations can not only reduce operational costs for the industrial park, but also better explore jointly a new means of revenue.

### **Part C: The recognized importance of operators in achieving sustainable profitability in industrial parks**

In G1Q17, G1 respondents pointed out that even with clear pathways to sustainable profitability, industrial park operators are essential to achieving these goals. (1) Enhancing Communication with Local Governments. Operators need to strengthen communication with local governments and gain their support. Compared to individual enterprises communicating independently, industrial parks can serve as a bridge between governments and businesses. They can relay common challenges faced by Chinese companies and help interpret local government policies, improving overall communication efficiency. Additionally, China and some host countries have agreements supporting overseas industrial parks and Chinese outbound investments. Industrial parks must engage with local governments to ensure the timely implementation of these agreements. Effective government communication and policy support are crucial for sustainable profitability. (2) Integrating and Coordinating Resources. Operators must better integrate and coordinate all resources inside and outside the industrial park—such as human resources, policy resources, government relations, and public relations—to ensure resource security for sustainable profitability.

In G2Q10, G2 respondents also highlighted the importance of operators in driving sustainable profitability. (1) Strengthening Communication with Local Governments and Communities. As mentioned earlier, operators need to improve communication with local governments and societies. This not only benefits the industrial park but also greatly helps businesses. Individual business demands are often overlooked, but if industrial parks represent these businesses in discussions with local authorities and communities, companies are willing to pay high fees for such services. This allows them to focus solely on production, which is critical for their success. (2) Enterprises believe that the key to sustainable profitability lies in offering customized business services that meet their needs, such as machinery maintenance and specialized logistics services.

These service innovations and improvements rely on the efforts of park operators.

In G4Q5, G4 respondents provided a more comprehensive perspective on the role of industrial park operators. The author summarizes this into three key roles played by operators. (1) Facilitator of Business Coordination Within the Park. Operators coordinate businesses within the park to create a clustering effect. This not only reduces operating costs but also attracts more enterprises to join the park. (2) Integrator of Local Resources. Operators consolidate overseas resources in the host country and achieve efficient integration of local resources. In other words, operators serve as a bridge between industrial park enterprises, local governments, local communities, and the Chinese government. Communication with successful Chinese businesses and overseas Chinese in the host country is particularly important. By leveraging their experience and resources, operators can help newly entered Chinese enterprises in the overseas industrial park mitigate risks and accelerate growth. To sum up, in this way, operator will establish a comprehensive service ecosystem that ensures mutual and long-term profitability for all stakeholders through supply chain financing, investment participation, and market expansion collaboration. (3) Builder of a Global Service Network for Chinese Enterprises. In the long run, operators should enhance cooperation among overseas industrial parks to form a global service network for Chinese enterprises. This network would not only generate service revenue but could also attract policy incentives and support from the Chinese government.

#### **8.4.2 Other Findings**

##### **Insight 1: Transitional profit models to address high costs before achieving sustainable profitability**

Overseas industrial parks require substantial financial investment during both the construction and operational phases, with long investment return cycles. This presents the first major challenge to achieving sustainable profitability, as parks must secure sufficient funds to maintain operations until profitability is reached. However, in G1Q11, two respondents mentioned that obtaining loans for overseas industrial parks is highly challenging. Chinese domestic financial institutions often reject loan applications due to the high risks of overseas investment, while host country banks tend to be very cautious and selective when lending to Chinese investors.

Due to financial pressures, some industrial parks rely on large sums from land sales, land leases, or factory rentals. However, this creates a risk where they lack the funds to sustain operations until they reach profitability. As a result, some parks reduce or stop providing new services to businesses, even cutting services to lower costs. This concern was raised in G2Q7, where some enterprises

acknowledged the immense financial pressure industrial parks face. They worry that if parks struggle to achieve short-term profitability, operators may lose interest in park management, leading to a decline in service quality. Currently, many enterprises simply hope that industrial parks can at least maintain their existing service levels.

Despite these challenges, China’s overseas industrial park operators have been exploring solutions. A repeatedly mentioned approach is the phased investment strategy used by TCR. As described in G1Q15, this method – called “phased investment” or “rolling development with concurrent revenue generation” – has been widely recognized. This approach serves as a transitional model before achieving sustainable profitability. Instead of completing the entire park's construction at once, developers first develop a portion of the park. Once this section is completed, they attract investment and generate revenue before expanding further. In G4Q5, G4 respondents provided a more detailed analysis of this model: (1) The First Phase is Critical. It typically takes 6 to 8 years. In this phase, the investors normally spend about 3 years developing basic infrastructure before pausing further construction. They then use the next 3 to 5 years to recoup costs by selling or leasing factories and land. The revenue from this phase is reinvested in subsequent phases of development. (2) Clear Infrastructure Development Targets. Investors must define clear goals for “Phase 1 infrastructure” based on available capital and enterprise needs. Through long-term experience, overseas industrial park investors have developed “three reference standards” for infrastructure: "Three Availabilities + Land Leveling", "Five Availabilities + Land Leveling" and "Seven Availabilities + Land Leveling". A detailed table outlining the specifications of these standards is provided below<sup>297</sup>.

	<b>Availabilities</b>	<b>Land Leveling</b>
Three Availabilities + Land Leveling	<p>Water Availability: Ensures an adequate water source for construction, daily use, and firefighting</p> <p>Electricity Availability: Guarantees power supply to the construction and production</p> <p>Transpiration Availability: Facilitates the smooth transportation of materials and personnel to the entrance of the industrial park.</p>	<p>The site is basically leveled for the construction of factory and office buildings of the enterprises.</p>

<sup>297</sup> Introduction of Three/Five/Seven Availabilities + Land Leveling, [https://www.sohu.com/a/298131008\\_443865](https://www.sohu.com/a/298131008_443865). Last visit: 2025.02.01.

<p>Five Availabilities + Land Leveling</p>	<p>Water Availability [...]</p> <p>Electricity Availability [...]</p> <p>Transpiration Availability [...]</p> <p>Communication Availability: Ensures the availability of telephone, fax, email, broadband internet, and fiber optic networks.</p> <p>Drainage Availability: Ensures proper systems for construction water, wastewater, and rainwater drainage.</p>	
<p>Seven Availabilities + Land Leveling</p>	<p>Water Availability [...]</p> <p>Electricity Availability [...]</p> <p>Transpiration Availability [...]</p> <p>Communication Availability [...]</p> <p>Drainage Availability [...]</p> <p>Gas (Natural Gas or Coal Gas) Availability: Ensures natural gas or coal gas is required and align with overall planning and demand.</p> <p>Heating Availability: Ensures stable heating supply in the designated area.</p>	

**Insight 2: The Incubator Effect of Overseas Industrial Parks May Be the Key to Sustainable Profitability**

The core competitiveness of industrial parks lies in their ability to create agglomeration effects. According to many Chinese scholars and officials, the significance of overseas industrial parks is that they enable the geographical concentration of Chinese small and medium-sized enterprises (SMEs) abroad. This concentration generates agglomeration effects, reducing institutional transaction costs within the park and helping enterprises grow. Specifically, information synchronization within the industrial park can effectively prevent Chinese companies from engaging in price competition due to information asymmetry overseas.

How can overseas industrial park operators achieve this clustering effect? Through an analysis of interview data, the author identified a potential approach: positioning the industrial park as an incubator for leading enterprises. The overseas industrial park can consolidate its resources and allocate them to one or a few of the largest and most successful enterprises within the park, helping them become leading enterprises. Once these leading enterprises emerge, they can accelerate industrial clustering within the overseas industrial park, attracting more businesses and fostering a stronger industrial ecosystem. This approach was reflected in the G1Q17 interviews, where respondents mentioned that operators alone find it difficult to coordinate enterprises within the park. Instead, leading enterprises must take on this role. The key contribution of the industrial park is to serve as a platform that consolidates all available resources and supports the most successful and largest enterprises within the park. These leading enterprises can then drive industrial development by guiding and coordinating other businesses in the park.

In fact, the concept of industrial parks as incubators is not unique to overseas industrial parks. This incubation model has long existed in China's domestic industrial parks. In G5Q2, domestic industrial park managers highlighted this approach, specifically mentioning the incubation center effect of industrial parks like Hangzhou High-Tech Zone. They also referenced technology business incubators as examples of successful enterprise incubation models in China.

### **8.4.3 Further Research**

#### **Further Research 1: A more comprehensive perspective on sustainable profitability of industrial parks**

During the interviews, the author discovered different interpretations of sustainable profitability in overseas industrial parks. These perspectives help expand research ideas in this field.

Some perspectives suggest that not all industrial parks need to achieve sustainable profitability. During the interviews, two special cases were identified. First, in G1Q15, a respondent from Haiphong mentioned that their organization is a public enterprise from a Chinese city, and their main goal is to use the overseas industrial park to help businesses from their home city expand internationally. This supports companies in their internationalization strategies and allows the city's government to focus resources on industrial restructuring and upgrading. As a result, for at least the next few years, this strategic goal takes priority over profitability. Second, as previously mentioned, Shareholder B of Vietnam Long Giang Industrial Park invested in the park primarily to pursue overseas investment opportunities. By becoming a shareholder, they aimed to mitigate the risks of investing alone, particularly by leveraging partnerships and the industrial park to secure

greater policy support and share investment risks. For this investor, the park's profitability is not a priority; their main concern is to ensure the smooth development of their own factory within the park.

Other perspectives argue that sustainable profitability is important for overseas industrial park investors, but the primary revenue source does not necessarily have to come from the infrastructure and services provided by the park itself. In G4Q4, a Chinese official explained that some overseas investors also operate industrial parks in China. Their investment in overseas parks is not solely for profit (at least not in the short term). Instead, their main objective is to expand and refine their service network, offering both domestic and international services to Chinese enterprises, thereby achieving overall profitability. Additionally, as mentioned in G1Q15-18 and G5Q2, the key to profitability lies in driving local industrial development. Once an overseas industrial park stimulates economic growth, it leads to geographical population clustering, particularly among workers and their families. The park can then capitalize on this by developing residential areas, shopping centers, and other facilities, generating revenue beyond traditional industrial park operations.

Therefore, these perspectives lead to a key reflection: Do overseas industrial parks necessarily need to achieve sustainable profitability? And what should be their primary sources of revenue? As mentioned earlier, some investors do not rely on industrial parks for direct profitability but instead consider them part of a broader investment strategy. Rather than focusing solely on park-generated revenue, they use the industrial park to enhance their overall investment portfolio, expand service networks, and support their long-term business objectives.

### **Further Research 2: Continuing the comparison of sustainable profitability between domestic and overseas industrial parks**

The sustainable development model of domestic industrial parks has provided valuable insights and experiences for overseas industrial parks. Therefore, this study attempts to summarize domestic experiences to identify lessons that could be applied to overseas industrial parks. However, the results were not ideal. As an expert mentioned in G4Q4, one of the main reasons is that overseas industrial parks cannot receive the same level of policy support and financing as domestic parks. For example, in China, local governments grant industrial parks certain tax and land development privileges to ensure financial stability and attract investment. However, overseas industrial parks do not have access to similar support, making it impossible to fully replicate China's sustainable profitability model in foreign markets.

Although the challenges mentioned above objectively exist, the author believes that China's domestic industrial parks are still worth studying in depth. One key realization during interviews with **Group 5 (Investors and Operators of Domestic Industrial Parks in China)** was that a lack of in-depth research on the sustainable profitability of domestic parks led to interview questions that lacked depth and specificity, resulting in limited contributions to this study's conclusions. However, despite this limitation, the study still identified two valuable insights from domestic industrial parks that could inspire overseas industrial parks. In G5Q2, a respondent from Hangzhou High-Tech Zone emphasized that their success relied on the efficient aggregation and allocation of resources. While overseas industrial parks may have succeeded in resource aggregation, they still struggle with efficient distribution. Additionally, a respondent from Suzhou Industrial Park shared insights from the 1990s collaboration between China and Singapore, where both countries jointly developed and operated the park. Despite challenges in communication and cooperation, this approach helped Singapore reduce investment risks and costs. This offers an important lesson for China's overseas industrial parks—whether they could invite shareholders to participate in park development and operations, thereby reducing operational costs and jointly exploring new profitability models.

## 8.5 Outlook

The starting point of this study was the observation that after the Belt and Road Initiative (BRI) was proposed in 2013, China's overseas industrial parks experienced rapid growth. In addition to industrial park investors, the Chinese government has also been paying attention to and supporting the development of these parks since it introduced the overseas economic and trade cooperation zone policy in 2005. Therefore, this study aims to answer a key question: What do overseas industrial parks mean for investors, enterprises, and the government?

This study concludes that overseas industrial parks facilitate enterprises' overseas investments for three main reasons. First, the "Park-in-Park" model increases investment success rates. Investors can leverage the infrastructure and services of larger parks to reduce construction costs, accelerate development, and provide better support for enterprises. This model has broad applicability and has encouraged many investors to expand overseas after recognizing its effectiveness in reducing investment risks and costs while enabling rapid operations. As this approach continues to gain traction, it is expected to become the mainstream model for China's overseas industrial parks. Potential drawbacks can be mitigated through early planning and strategic coordination to ensure win-win outcomes.

Second, enterprises use overseas investment primarily as a learning experience rather than

immediately shifting full-scale production. Interviews with Chinese enterprises in overseas industrial parks revealed that their key motivation is to experiment with overseas investment and production to gain experience rather than immediately relocate their entire operations. This serves two main purposes: (1) to compare inland China with overseas locations to determine the best long-term industrial relocation strategy, and (2) to establish a foundation for their internationalization efforts. Compared to direct overseas investment, industrial parks offer a lower-cost, lower-risk environment for companies to test the waters. Two key conclusions emerged from the study: (1) reducing production costs is not the sole or primary concern—many companies prioritize lowering trade costs, especially in the wake of the U.S.-China trade war and U.S. decoupling policies; (2) gaining experience in international production is a key motivation, as many Chinese firms have internationalization ambitions but lack hands-on global investment experience. Industrial parks enable them to collaborate, share risks, and reduce the costs of learning through collective growth.

Third, while overseas industrial parks have not yet achieved sustainable profitability, they have identified potential paths toward it. This suggests that they may achieve stable and long-term development, ensuring they continue to provide reliable services to enterprises. This marks China's first large-scale promotion of overseas industrial parks under BRI, but questions remain regarding their long-term sustainability. Unlike domestic industrial parks, which often overlap with administrative districts – allowing them to generate tax revenue, control urban development, and fund public services – overseas industrial parks lack these advantages. However, China's domestic experience still offers two key lessons: (1) the "industry-city integration" model, which links industrial and urban development, and (2) the use of industrial clustering to drive sustainable growth. These strategies could serve as valuable references for improving the profitability and long-term profitability of China's overseas industrial parks.

This study also identifies several areas for future research. First, given the high investment costs and long profitability cycles of overseas industrial parks, future research should explore whether Chinese public enterprises should become the primary investors. These public enterprises should come from cities where many companies seek overseas investment opportunities. On one hand, public enterprises can better handle large-scale investment costs, and on the other, they can support industrial restructuring and upgrades within their home cities, helping local businesses expand internationally while ensuring a more coordinated overseas investment strategy. Second, future studies should conduct a wider and long-term survey of Chinese enterprises to track their investment expectations and decision-making processes. While many companies currently treat

overseas investment as an experimental process to gain experience, a dynamic, long-term study is needed to understand what conditions would encourage them to transition from small-scale exploratory investments to large-scale industrial relocation. This will help predict when and how Chinese enterprises might scale up their overseas operations. Third, achieving sustainable profitability in overseas industrial parks requires expanding commercial services for enterprises, but this relies on industrial clustering. Without a structured and concentrated industrial ecosystem, industrial parks struggle to provide specialized business services effectively. Thus, future research should focus on strategies to strengthen industrial clustering, ensuring that companies with complementary industries settle in the same location to maximize economic synergies and enhance long-term profitability.

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## Annex 1: Interview Process Data

	No.	Date	Duration	Place	Identity
<b>Group 1</b>	1	2023.07.19	120 mins	Bangkok, Thailand	Leader of TCR
	2	2023.07.23	90 mins	Rayong, Thailand	Leader of TCR
	3	2023.07.22	90 mins	Rayong, Thailand	Leader of TCR
	4	2019.10.16	120 mins	Jakarta, Indonesia	Leader of KITIC
	5	2019.10.17	120 mins	Jakarta, Indonesia	Leader of KITIC
	6	2019.10.11	120 mins	Long Giang, Vietnam	Leader of LJIP
	7	2019.10.10	120 mins	Ho Chi Minh City, Vietnam	Leader of LJIP
	8	2019.10.14	120 mins	Ho Chi Minh City, Vietnam	Leader of LJIP
	9	2019.10.23	120 mins	Hanoi, Vietnam	Leader of VCEP
	10	2019.10.21	90 mins	Haiphong, Vietnam	Leader of VCEP
	11	2019.10.22	120 mins	Haiphong, Vietnam	Leader of VCEP
	No.	Date	Duration	Place	Identity
<b>Group 2</b>	1	2023.07.20	120 mins	Bangkok, Thailand	Enterprise President

	2	2023.07.25	120 mins	Rayong, Thailand	Enterprise Manager
	3	2023.07.25	90 mins	Rayong, Thailand	Enterprise President
	4	2023.07.19	90 mins	Bangkok, Thailand	Enterprise President
	5	2023.07.20	120 mins	Bangkok, Thailand	Enterprise Vice President
	6	2019.10.16	120 mins	Jakarta, Indonesia	Enterprise President
	7	2019.10.15	90 mins	Jakarta, Indonesia	Enterprise President
	8	2019.10.16	90 mins	Jakarta, Indonesia	Enterprise Manager
	9	2019.10.10	120 mins	Ho Chi Minh City, Vietnam	Enterprise President
	10	2019.10.11	120 mins	Long Jiang, Vietnam	Enterprise Vice President
	11	2019.10.12	120 mins	Long Jiang, Vietnam	Enterprise Manager
	12	2019.10.21	90 mins	Haiphong, Vietnam	Enterprise President
	13	2019.10.21	120 mins	Haiphong, Vietnam	Enterprise President
	14	2019.10.23	90 mins	Hanoi, Vietnam	Enterprise President
	15	2019.10.24	90 mins	Hanoi, Vietnam	Enterprise Vice President

	No.	Date	Duration	Place	Identity
<b>Group 3</b>	1	2023.07.21	120 mins	Bangkok, Thailand	Member of Chinese Chamber of Commerce in Bangkok
	2	2023.07.26	120 mins	Bangkok, Thailand	President of Chinese Chamber of Commerce in Bangkok
	3	2023.07.19	120 mins	Bangkok, Thailand	Member of Chinese Chamber of Commerce in Bangkok
	4	2019.10.15	120 mins	Jakarta, Indonesia	Member of Chinese Chamber of Commerce in Jakarta
	5	2019.10.15	120 mins	Jakarta, Indonesia	Member of Chinese Chamber of Commerce in Jakarta
	6	2019.10.16	120 mins	Jakarta, Indonesia	Member of Chinese Chamber of Commerce in Jakarta
	7	2019.10.17	120 mins	Jakarta, Indonesia	Member of Chinese Chamber of Commerce in Jakarta
	8	2019.10.13	120 mins	Ho Chi Minh City, Vietnam	President of Chinese Chamber of Commerce in Ho Chi Minh City
	9	2019.10.14	120 mins	Ho Chi Minh City,	Member of Chinese

				Vietnam	Chamber of Commerce in Ho Chi Minh City
	10	2019.10.21	90 mins	Haiphong, Vietnam	Member of Chinese Chamber of Commerce in Hanoi
	11	2019.10.24	120 mins	Hanoi, Vietnam	Member of Chinese Chamber of Commerce in Hanoi
	12	2019.10.25	120 mins	Hanoi, Vietnam	Member of Chinese Chamber of Commerce in Hanoi
	<b>No.</b>	<b>Date</b>	<b>Duration</b>	<b>Place</b>	<b>Identity</b>
<b>Group 4</b>	1	2018.04.17	120 mins	Beijing, China	Research Fellow from Think Tank “CCG”
	2	2019.09.25	90 mins	Beijing, China	Professor from University
	3	2019.09.25	120 mins	Beijing, China	Research Fellow from China Council for the Promotion of International Trade
	4	2023.05.11	90 mins	Beijing, China	Research Fellow from Think Tank “CASS”
	5	2023.05.19	120 mins	Shanghai, China	Professor from University
	6	2018.03.05	120 mins	Beijing, China	Official from Ministry of

					Commerce of China
	7	2018.03.18	90 mins	Beijing, China	Official from Ministry of Commerce of China
		2023.05.17	90 mins	Beijing, China	
	8	2019.09.10	120 mins	Hangzhou, China	Official from Hangzhou Government of China
	9	2019.09.23	120 mins	Beijing, China	Official from National Development and Reform Commission of China
	10	2019.09.26	90 mins	Hangzhou, China	Official from Hangzhou Government of China
	11	2023.05.15	120 mins	Beijing, China	Official from Ministry of Commerce of China
	<b>No.</b>	<b>Date</b>	<b>Duration</b>	<b>Place</b>	<b>Identity</b>
<b>Group 5</b>	1	2023.07.06	120 mins	Suzhou, China	Leader of SIP
	2	2023.07.06	120 mins	Suzhou, China	Leader of SIP
	3	2023.07.12	90 mins	Suzhou, China	Leader of SIP
	4	2023.07.13	120 mins	Suzhou, China	Leader of SIP
	5	2018.04.09	120 mins	Hangzhou, China	Leader of HTTZ
	6	2018.04.09	120 mins	Hangzhou, China	Leader of HTTZ
	7	2018.04.11	120 mins	Hangzhou, China	Leader of HTTZ



## Annex 2: Research findings contributing to the conclusions of Chapter 5

Group 1: Investors and Operators of Overseas Industrial Parks				
	TCR	KITIC	LJIP	VCEP
G1Q3	<b>What are the reasons and confidence behind investing in overseas industrial parks?</b>			
	<b>For example, market demand or policy incentives?</b>			
	<p>No1: The investor of the existing industrial park, AMATA, is a well-known industrial real estate developer with strong financial resources and extensive experience in Thailand. It is a good partner.</p> <p>No2: Two reasons. (1) We (Holley Group) have long-term investment experience in Thailand and identified market demand for overseas industrial parks. (2) Another reason to collaborate with AMATA is that its founder is an overseas Chinese.</p> <p>No3: The primary reason was the observed demand from Chinese enterprises.</p>	<p>No4: (1) Driven by OETCZ policy. (2) China has long cooperated with Indonesia, where many Chinese enterprises and expatriates are present, making it a viable investment location.</p> <p>No5: (1) Expansion of overseas business. (2) Indonesia is rich in agricultural resources, and we (Guangxi State Farms Group) specialize in agricultural processing, making it a highly compatible investment. (3) Additionally, Chinese enterprises and expatriates in Indonesia offer significant support, including investment participation from Indonesian Chinese expatriates.</p>	<p>No6: We have identified strong market demand. And Vietnam is continuously expanding its openness and offers advantages in land prices, labor costs, and other factors. More Chinese enterprises are expected to invest in Vietnam, increasing the demand for industrial parks.</p> <p>No7: (1) One of the park investors has been engaged in commercial activities in Ho Chi Minh City for over 20 years and is very familiar with the local environment. (2) Another key factor was the launch of OETCZ policy, which encouraged investment for this.</p> <p>No8: Observed market demand.</p>	<p>No9: Encouraged to the OETCZ policy.</p> <p>No10: (1) Recognized market demand from Chinese enterprises. (2) Government from two countries support investment for the overseas industrial government.</p> <p>No11: We belong to a public enterprise from Shenzhen, China. The public enterprise responsible for supporting Shenzhen's industrial restructuring, including assisting Shenzhen enterprises in overseas investment.</p>
G1Q4	<b>What are the main reasons for choosing the "Park-in-Park" model or the "Non-Park-in-Park" model?</b>			
	<p>No1: We have long-term cooperation with AMATA, providing convenience and familiarity in Overseas industrial</p>	<p>No4: (1) The "Park-in-Park" model of TCR had already proven successful, especially the advantages in fast construction</p>	<p>No6: Did not adopt the "Park-in-Park" model because we are familiar with the Vietnam. We can find a cheaper place for</p>	<p>No9: (1) We have a long-term development plan. So, we didn't use "Park-in-Park", because we feared restrictions from the</p>

	<p>park investment. We had also consulted local Chinese businessman and overseas Chinese, who endorsed the idea of the "Park-in-Park" model.</p> <p>No2: We choose this model for the following reason. (1) Similar positioning and goals with AMATA, recognizing the increasing demand for overseas investment of Chinese enterprises. (2) The idea of joint construction of overseas industrial park received government support from both countries. (3) The construction of the industrial park can be accelerated by leveraging AMATA's existing infrastructure.</p> <p>No3: As inexperienced investor for overseas industrial park, we try to trust the existing park's strength and risk mitigation. We believe it is a safe way to invest.</p>	<p>and early operation, which aligning with enterprise needs.</p> <p>(2) Lack of experience, so adopting this model. (3) Recommendations from Indonesian overseas Chinese and Chinese businessmen.</p> <p>No5: Lacked experience in overseas industrial park investment, so relied on recommendations from Indonesian Chinese expatriates and businesspeople for park selection. They said this model is good.</p>	<p>construction park.</p> <p>No7: We are familiar with the local environment, so we can find better locations with lower costs, better logistics, and stronger government policy support, making the "Park-in-Park" model unnecessary.</p> <p>No8: We did not consider the "Park-in-Park" model, because there was no suitable existing industrial park for us. The existing Japanese and Korean industrial parks in Vietnam, such as Samsung's industrial Park, were already exclusive to their own national enterprises, leaving no room for us.</p>	<p>existing park. (2) By the way, we could not find an existing industrial park like AMATA in Thailand. Possibly due to Vietnam's administrative system, which divides the country into 58 provincial-level units and five municipalities, making it difficult to secure large-scale land for a large-scale industrial park in Vietnam. Or possibly due to the difficulties in purchasing land from citizens here, it is a complicated process here.</p> <p>No10: We have a long-term goal; we don't want to be restricted by the existing park in the future.</p> <p>No11: I think it was mainly because of the policy encouragement.</p>
<p><b>G1Q5</b></p>	<p><b>How has the chosen model helped during the construction process?</b></p>			
	<p>No1: Very smooth process. With extensive support from the existing industrial park, construction was accelerated. As result, our park could be put into operation ASAP.</p>	<p>No4: Smooth process, as this model help avoiding two common challenges faced by overseas industrial park: (1) After construction, people figured out that the neighboring infrastructure is insufficient for</p>	<p>No6: The "Non-Park-in-Park" model may be helpful under certain conditions, but its applicability is more limited than the "Park-in-Park" model.</p> <p>No7: The "Non-Park-in-Park"</p>	<p>No9: No direct help from the "Non-Park-in-Park" model. But we don't really care about the benefit of the model in the construction phase. Because our priority goal is to have better development align with the local</p>

	<p>No2: The “Park-in-Park” model brought two benefits. (1) Land purchasing from citizen is not easy. AMATA had already completed land acquisition from local residents, preventing disputes between us and residents. Because we purchase land from AMATA. (2) It helps a lot in the construction process, especially AMATA’s industrial park construction experience in Thailand provided a lot inspiration.</p> <p>No3: It is important that the existing park has already provided a lot of pre-built infrastructures such as land leveling, electricity, and water supply. This really helpful.</p>	<p>production such as electricity supply. It required the park to pay additional investment on solving problem. (2) Land purchase will always have to negotiate with local residents. Sometimes it will lead to misunderstanding.</p> <p>No5: Smooth construction. With the help of existing industrial park, we can better communicate with local government and society. And their pre-built infrastructure lowered our costs.</p>	<p>model has no direct assistance. Maybe it will be good thing that it requires us to communicate more often and directly with local government and society. The closer relation will foster long-term local integration.</p> <p>No8: No obvious impact on construction (with this model). But we don’t need it, as we are familiar with Vietnam, so we can select a well-located, low-cost site, more preference policy from local government.</p>	<p>development plan. That’s why we choose the site in the north Vietnam because here will be the focus of the development plan.</p> <p>No10: Government support was more influential than the investment model. As a public enterprise from Shenzhen, we have received the strong backing from Shenzhen government (in China) and Haiphong government (in Vietnam).</p> <p>No11: It is difficult to compare both models with the costs. The “Park-in-Park” model helps in reducing cost with its pre-built infrastructure. The “Non-Park-in-Park” model can also reduce costs, as long as the investor find a place with lower land costs and more preference government policies</p>
<b>G1Q6</b>	<b>How has the chosen model helped during the operation process?</b>			
	<p>No1: The “Park-in-Park” model has advantages in operation. The existing park can provide enterprises with more comprehensive and professional services, such as one-stop services and financial services,</p>	<p>No4: (1) The exiting park can offer a full range of professional services, such as one-stop service, which is crucial in the early stages of China’s overseas industrial park development. Because it can help the</p>	<p>No6: No significant benefits from the model. In fact, this has little to do with the model itself. The key factor is whether the industrial park operator has sufficiently realized about the local investment environment.</p>	<p>No9: No comment.</p> <p>No10: No benefits from the so-called “Non-Park-in-Park” model. The model has little to do with the successful operation. There are two key factors that</p>

	<p>making the industrial park more attractive.</p> <p>No2: The main benefit is the ability to offer more and better services.</p> <p>No3: (1) In this model, the existing park can provide more comprehensive and professional services. (2) More importantly, it has great future potential for Chinese enterprises within our park. Many multinational enterprises from around the world are already present in the existing park, then Chinese enterprises within our park can have bmore opportunities to collaborate with these global corporations.</p>	<p>industrial park become more attractive to enterprises compared to other newly built parks. (2) But over time, restrictions from the existing park become increasingly evident. For example, the existing park can continuously raise land and infrastructure costs, while our China's overseas industrial park has little bargaining power.</p> <p>No5: (1) A key advantage of the model is many large multinational corporations in the existing park, particularly the Japanese multinational enterprises. It increases collaboration opportunities for Chinese enterprises. (2) But this model could also be a limitation, as the leading enterprises in the existing park have already determined the industrial structure, preventing the China's overseas industrial park from attracting outstanding enterprises that do not fit with this structure.</p>	<p>The park should know what resources they can use and how to use it good. That is the core competitiveness of the park.</p> <p>No7: Compared to the "Park-in-Park" model, our advantage lies in greater autonomy, which facilitates better coordination among enterprises within the parl. In contrast, in the "Park-in-Park" model, the existing park's industrial development plans and positioning may impose operational and strategic constraints on the China's overseas industrial park.</p> <p>No8: The model is irrelevant. (1) Success of the industrial park investment relies on the operator's familiarity with the local environment. (2) The operator's familiarity with the Chinese enterprises within the park is also crucial. For example, many enterprises within the park were our partner before or came from the same Chinese city with us, all of this fostering mutual trust and enhancing operational efficiency.</p>	<p>contribute to this. (1) Government support. China and Vietnam have agreements supporting China's overseas industrial parks, but the real challenge is ensuring their proper implementation by the local government. (2) Another crucial factor is the investor's identity and reputation, which significantly influence enterprises' decisions to enter the park. For instance, our industrial park is invested in and operated by a public enterprise from Shenzhen, which has strengthened confidence of enterprises.</p> <p>No11: I had considered the issue but have not yet found an answer.</p>
G1Q7	What is the biggest challenge of the chosen model? Is it unique to the "Park-in-Park" model or the " Non-Park-in-Park" model?			
	No1: The biggest challenge is	No4: The construction phase	No6: No difficulties. (1) During	No9: Both phases had minor

	<p>attraction to enterprises. But this problem has nothing to do with the model, as the “Non-Park-in-Park” model also faced the same problem.</p> <p>No2: We don’t have problems. But I think the challenge of this model is how you can build mutual trust with the existing park and how to find a win-win cooperation. It will take a long time and efforts to do that, and maybe there will be no answer. So, the plan and location of the industrial park at beginning is the most important.</p> <p>No3: No problems. Some people have mentioned challenges in the operational phase, but our long-term cooperation with the existing park has allowed us to find win-win collaboration opportunities. So, we and the existing park can find way to have profits together.</p>	<p>went very smoothly, but operational challenges are significant. The “Park-in-Park” model may create some constrains on the enterprises attraction of China’s overseas industrial park. For example, if the existing park primarily focuses on auto parts manufacturing, it becomes less attractive to Chinese manufacturing enterprises in other sectors. We are now adjusting our positioning by no longer exclusively targeting Chinese enterprises but attracting famous multinational enterprises.</p> <p>No5: Enterprises attraction. There are two causes. (1) The part related to the “Park-in-Park” model is that the existing park may increase land rent and service fees. This will increase our operation cost. (2) But the part unrelated to the model is that we had not fully considered the site selection and planning. We invested the overseas industrial park in a very hash decision, as we were encouraged by the policies and the increasing economic</p>	<p>construction, our familiarity with Vietnam allowed us to select a low-cost investment location. (2) In operation phase, we had no pressure on enterprises attraction. Because we had already confirmed the list of enterprises that intended to enter the park, many of them came from our hometown city.</p> <p>No7: No clear conclusions. Each phase has its own challenges, but it is unclear whether they are related to the model.</p> <p>No8: Both construction and operation phases had challenges, but they were unrelated to the model. The main difficulties stemmed from a lack of experience and clarity in positioning, which we gradually addressed over time.</p>	<p>difficulties, but they were not significant. The main issues arose from inexperience and inadequate planning, which we later resolved with time and resources.</p> <p>No10: The biggest challenge is the construction suspension. It is unrelated to the model. This was mainly about the disagreements among the shareholders of the former investor.</p> <p>No11: We didn’t face a big challenge. The investor and operator of the overseas industrial park is a public enterprise. So, we can obtain loans relatively easily during construction. For operations, there are fewer concerns, as the credibility of a public enterprise reassures stakeholders that we will not abandon the project midway.</p>
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		relation between the two countries at that time.		
<b>G1Q11</b>	<b>Aside from the impact of the existing industrial parks mentioned in G1Q7, what other challenges do overseas industrial parks face in attracting enterprises?</b>			
	<p>No1: Considered this issue but has not yet found an answer. Financial pressure might be a major factor.</p> <p>No2: We don't see the challenges. I am optimistic. (1) The park can continue leveraging the advantages of the existing park to provide better infrastructure and services, attracting more enterprises. (2) We come from Zhejiang province, China. And many Zhejiang-based enterprises have overseas investment needs. Long before the park's completion, these enterprises and we had already established cooperation agreements.</p> <p>No3: Choosing an industrial park is a difficult decision for enterprises, as they need to consider many factors. We cannot help in this field. What we can do best is to strengthen cooperation with the existing park and improve infrastructure and services to meet investment</p>	<p>No4: (1) Enterprise hesitation is an issue. Many Chinese enterprises lack overseas investment experience, clear plans, and selection criteria, making them indecisive. Some enterprises contacted several China's overseas industrial parks in Southeast Asia but ultimately made no decision. (2) Additionally, China's industrial parks in Southeast Asia offer similar incentives, such as tax exemptions and foreign investment benefits. This makes enterprises' decision-making more difficult, as enterprises struggle to evaluate the real advantages and challenges of investing in a specific location.</p> <p>No5: The biggest challenge comes from the existing park's influence. What we can do is to focus efforts on overcoming this issue. The strategy has shifted from exclusively attracting Chinese enterprises to inviting international corporations that align with the industrial</p>	<p>No6: No significant issues. With over 20 years business experience in Vietnam, we are highly familiar with the local environment. Moreover, many enterprises intended to enter our enterprises had contacted us in advance, particularly Zhejiang-based enterprises.</p> <p>No7: Since China's industrial parks in Southeast Asia generally offer similar incentives, enterprises find it difficult to choose. Some of them hesitated too long, missing the best investment opportunities or strategy shifts due to international market changes.</p> <p>No8: (1) Insufficient promotion in China may be a factor, so efforts are being made to increase online population of our park. (2) Another issue is that some enterprises seek highly customized infrastructure and services tailored to their production needs. However, the park's construction already took</p>	<p>No9: The investor and operator of our park is a public enterprise from China. We have confidence in our credibility and influence. The real issue may lie in those enterprises lacking clear investment criteria.</p> <p>No10: I'm not sure about this. Maybe two challenges. (1) Each enterprise will present many demands, which cannot all be met at same. Some requests seem unnecessary, and many enterprises lack well-defined, specific needs, making it unclear what services should be prioritized. (2) Another factor may be the park's limited experience, as it has been in operation for less than ten years. Over time, a more mature business and operational model is expected to emerge, improving the ability to attract enterprises.</p> <p>No11: Financial pressure is significant. Chinese financial institutions often refuse loans</p>

	needs.	structure of the existing park.  This enhances the park's scale and promotes collaboration on larger projects.	high costs, leaving insufficient funds to meet these specific demands, leading enterprises to choose other industrial parks.	due to the high risks of overseas investments, while host-country banks are cautious about lending to Chinese investors.
<b>G1Q14</b>	<b>Compared to other industrial parks, what is the main attraction of China's overseas industrial parks for enterprises?</b>			
	<p>No1: We are confident for the following reasons. (1) Our park is the longest-established and most well-developed China's overseas industrial park in Thailand. (2) The existing park has significant resources, allowing enterprises within our park to benefit from better services and infrastructure. The key attraction may be lie in that China's overseas industrial park can providing a Chinese-language business environment that facilitates communication, collaboration, and risk-sharing among the enterprises.</p> <p>No2: (1) A major factor is the strong economic ties between China and Thailand, leading many enterprises to choose Thailand as an investment destination. Since this is the longest-established and largest China's overseas industrial park in Thailand, it naturally becomes the top choice. (2) Additionally, the park has an accurate</p>	<p>No4: Honestly, there are no particularly strong advantages yet. Most of our park's appeal currently comes from what the existing park offers. (1) An excellent geographic location. (2) Services such as a one-stop administrative approval office and tax incentives. This means our park's unique advantages are not yet clear, and we need to carefully analyze what makes us stand out.</p> <p>No5: (1) Our park is invested in and operated by a public service enterprise from Guangxi. Because of this, some Chinese enterprises have more trust on us, such as in terms of our stable financial support and smoother communication with local governments from both sides. (2) Another key advantage is our certification of national OETCZ, which enhances our popularity and credibility. (3) More broadly, the strengthening of China-Indonesia economic ties has</p>	<p>No6: (1) Government support is critical, that's why we actively engage communication with both local governments and local communities. (2) Before construction was completed, many enterprises from my province in China had already contacted us. Cultural and geographic familiarity helps to increase the attraction to a certain degree. (3) We have a clear understand of Chinese enterprise needs. Many of them prioritize gaining experience in overseas investment and production. To support this, we try our best to offer cost-effective rental services for general-purpose equipment, allowing enterprises to achieve their goal with minimal cost.</p> <p>No7: No clear thoughts on this yet, but competitive pricing may be a key attraction for enterprises.</p> <p>No8: I have no idea, but I agree</p>	<p>No9: I have some feeling about this, but no well-structured conclusions yet.</p> <p>No10: As a public enterprise, our role contributes to gaining significant trust from the enterprises. Additionally, my hometown government, Shenzhen government has helped strengthen ties with the Haiphong government here in Vietnam.</p> <p>No11: (1) It's complicated to answer. I think site selection is a major factor in attracting enterprises. Our park is located in northern Vietnam, where Vietnamese government will promote heavily in the next years according to their development plan. This is evident in the expanding highways and ongoing infrastructure development. That's why some Chinese enterprises choose us rather than LJIP, which also located in</p>

	<p>understanding of enterprise needs. Many enterprises seek quick overseas investment deployment, and the "Park-in-Park" model allows for rapid construction, making the park highly attractive.</p> <p>No3: (1) Government support is crucial, not only aiding in the establishment and operation of the industrial park but also increasing enterprise confidence. When enterprises see strong backing from both governments, they naturally trust the park more. Just like when our park began, we received high-level government support from both sides. (2) Many enterprises use overseas investment to gain foreign experience according to our knowledge. Our park allows them to achieve this at a relatively low cost. Moreover, they can also have more chances to study from and cooperate with the multinational corporations within the existing park.</p>	<p>driven an increasing number of enterprises to invest overseas and enter in our park. (4) I'm not sure now but I think this may be right. After Chinese enterprises enter in our park, they will have strong growth potential in the future. Because they can engage with world famous multinational enterprises in the existing park.</p>	<p>with insights from Chinese experts and officials. Some of them argue that the advantage of China's overseas industrial parks lies in clustering Chinese enterprises abroad. Overseas industrial park, serve as a platform, can foster collaboration, cost-sharing, and risk reduction among these enterprises. It is particularly important for Chinese SMEs manufacturers reliant on export orders.</p>	<p>Vietnam. (2) Moreover, the key advantage of China's overseas industrial parks is providing a platform where Chinese enterprises do not face language or cultural barriers. Collaborating and sharing resources further reduces overseas investment risks and costs, allowing enterprises to develop more effectively.</p>
<b>Group 2: Enterprises Managers within Overseas Industrial Park</b>				
	<b>TCR</b>	<b>VCEP</b>	<b>LJIP</b>	<b>VCEP</b>
<b>G2Q4</b>	<b>What was the biggest difficulty in choosing an overseas industrial park? How did you finally make your decision?</b>			

	<p>No1: No difficulties were encountered, as the industrial park developer was a long-term business partner to us, and we both came from the same Chinese city. So, we selected this park at the very beginning.</p> <p>No2: We had no difficulties. We were very clear to investment in Thailand. The reason we choose this park because this was largest China's overseas industrial park in Thailand, which had the certification of national OETCZ.</p> <p>No3: We had prior investment experience in Thailand and naturally chose the most reputable and largest industrial park. We didn't hesitate when choosing an industrial park.</p> <p>No4: The biggest challenge was the lack of overseas investment experience, making us difficult to make an informed decision. Ultimately, the investment was made based on confidence in the future of China-Thailand economic relations.</p> <p>No5: We had evaluated several</p>	<p>No6: The main challenge was excessive competition among several China's overseas industrial parks in Southeast Asia. After evaluating overseas industrial parks in Thailand, Vietnam, and Indonesia, we figured it that most of them offered similar conditions, leading to a hard decision for us. The final decision was influenced by a trusted business partner already operating within this park. Meanwhile, multinational corporations in the existing park was also a factor, as they could be potential future partners.</p> <p>No7: After deciding to invest overseas, we wanted to act immediately. The chosen industrial park was nearing completion at that time, and its pricing was reasonable.</p> <p>No8: The biggest challenge was our lack of clear evaluation criteria, combined with the homogeneous competition among overseas industrial parks in Southeast Asia, which made our decision even more difficult. Ultimately, we chose this</p>	<p>No9: There were challenges, but it wasn't too difficult for us. At that time, our headquarters was mainly focused on investing in inland China, while overseas investment was seen as a way to gain international experience. So, we chose the most well-known and fastest-growing overseas industrial park. Additionally, we visited and evaluated the park multiple times before making the decision, and we were relatively satisfied with the results.</p> <p>No10: We are quite familiar with Vietnam, which gave us a clearer understanding of this industrial park's potential for development. Moreover, the investors behind the park are Chinese enterprises that have been investing in Vietnam for a long time. We know and trust them well.</p> <p>No11: We conducted a detailed assessment and comparison before making our decision. In the end, we made our choice based on a comprehensive evaluation of pricing and location.</p>	<p>No12: We didn't face any difficulties. The industrial park developers are from the same city in China as we are, so we are familiar with them and trust them. Additionally, since they are a public enterprise, we have confidence in their capabilities.</p> <p>No13: There were some difficulties, but not major challenges. Since the industrial park investors are also from our home city in China, we understand and trust them. Moreover, we learned that Vietnam plans to further develop its capital and nearby cities, creating a northern economic belt. This industrial park is strategically located in the middle of that economic zone.</p> <p>No14: Our decision was based on a comprehensive evaluation: (1) Vietnam, like China, is a socialist country, and economic and trade relations between China and Vietnam are growing stronger; (2) Time was a critical factor—this park had a fast construction pace and well-equipped facilities and services;</p>
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	<p>China's overseas industrial parks in Southeast Asian. Recommendations from some Chinese enterprises in Thailand played a decisive role in our decision-making. Another decisive role is that the developer of the park and we originated from both Chinese province, Zhejiang Province.</p>	<p>industrial park because BRI was proposed at that time. Indonesia was one of the most important countries in BRI.</p>		<p>(3) We share the same hometown as the park's investors, which fosters familiarity and trust. Additionally, many fellow townspeople are already in the park, which facilitates cooperation and mutual support.</p> <p>No15: Apart from the industrial park offering competitive pricing, another key factor was the presence of several enterprises from our home city in China. They provided valuable introductions and insights, and being in the same industry, we felt that mutual trust and collaboration would be easier to establish.</p>
<b>Group 3: Members from Chinese Chamber of Commerce near Overseas Industrial Parks</b>				
	<b>Chinese Chamber of Commerce near TCR</b>	<b>Chinese Chamber of Commerce near KITIC</b>	<b>Chinese Chamber of Commerce near LJIP</b>	<b>Chinese Chamber of Commerce near VCEP</b>
<b>G3Q3</b>	<b>Have Chinese policies and initiatives (such as OETCZ policy, BRI, etc.) significantly promoted investment in China's overseas industrial parks?</b>			
	<p>No1-3: This is evident in the increased interactions between the two governments at the highest levels. It also reflected in the host country's growing policy incentives for Chinese investment.</p>	<p>No4-7: It has indeed played a significant role in driving growth, as the number of enterprises investing here has increased in recent years. A major reason for this is the enhanced policy incentives for Chinese investment. However, the challenge lies in the fact that</p>	<p>No8-9: I have personally experienced this change. Previously, China had strict approval processes for outbound investments, requiring numerous procedures and a lengthy approval period. After BRI proposed, China adopted a more supportive attitude toward</p>	<p>No10-12: (1) I believe this is a very important strategy as it signifies China's acceleration in international industrial expansion. A key area to highlight is China's high-end equipment manufacturing industry. Our efficient and cost-effective equipment gives us a</p>

		<p>these incentives are primarily the result of high-level agreements between the two governments, and it remains uncertain how much the local government can effectively implement. This requires multiple rounds of discussions and negotiations between enterprises and the local government. We have also participated in several coordination efforts during this process.</p>	<p>overseas investments, simplifying procedures and introducing various incentive policies.</p>	<p>competitive advantage, making it particularly popular in Southeast Asian countries. (2) As for concerns in China that industrial relocation overseas might lead to industrial hollowing or China being replaced in the global production, there is no need to worry too much. China's industrial structure remains stable, and the domestic market is enormous. (3)But it must be acknowledged that these policies have also encouraged some cases of reckless investment. This includes overly hasty investments in overseas industrial parks, where factors such as planning and site selection were not thoroughly considered.</p>
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**Group 4: Chinese Scholars or Officials in this Field**

	Chinese Scholars	Chinese Officials
<b>G4Q1</b>	<b>Can overseas industrial parks help China upgrade its position in the global value chain?</b>	
	<p>No1: I support Professor Jiang Xiaojuan's view on the digital economy. China should use this approach to upgrade its position in the global value chain. In recent years, the rapid development of artificial intelligence in China has made this upgrade path even more possible.</p> <p>No2: This can be helpful. We can take inspiration from Japanese enterprises' overseas investments. When Japanese manufacturing first expanded abroad, they emphasized coordination among related enterprises. Logistics, insurance, and other service providers followed</p>	<p>No6: This is too far ahead to predict. So far, discussions on OETCZ have mainly focused on reducing Chinese enterprises' overseas investment costs. I don't recall official documents mentioning their role in upgrading China's position in the global value chain. However, it is clear that the government expect OETCZ can benefit overseas investments, by serving as a platform for Chinese enterprises to invest collectively abroad, reducing risks and costs.</p> <p>No7: (1) Industrial parks in China have already proven their role in</p>

<p>closely, jointly developing overseas markets. Our current approach is similar. By establishing overseas industrial parks, we can geographically cluster Chinese enterprises, increasing interactions among them. This helps share risks and benefits collectively. The smoother Chinese enterprises' overseas investments go, the better they can build overseas value chains. Ultimately, their position in the global value chain becomes more significant.</p> <p>No3: Theoretically, I agree that overseas industrial parks help China's global value chain upgrade. The main reason is that these parks serve as platforms to efficiently integrate and coordinate domestic and international resources. They provide comprehensive investment services and risk management for enterprises, reducing risks in overseas investments and improving the overall level of Chinese enterprises expanding abroad. However, the actual impact will take time to develop. Overall, I am optimistic about it.</p> <p>No4: (1) Even without industrial parks, Chinese enterprises can still succeed in overseas investment. From an industrial transfer perspective, China's advantage in upgrading the global value chain lies in its unique combination of high-end technology and cost-effective labor. This matches the needs and capacities of developing countries, allowing them to leverage their late-mover advantage. If the technological gap is too large, countries with weak industrial foundations will struggle to adopt advanced automation. Therefore, Chinese investments in developing countries can create win-win outcomes: host countries can use their late-mover advantage to advance industrialization and integrate into global production networks, while Chinese firms can build overseas industrial park chains to upgrade their global value chain position. Currently, in industries such as light manufacturing, textiles, auto parts, and agricultural processing, some overseas investments have already shown signs of industrial clustering. (2) I agree with that the emergence of overseas industrial parks can lower investment costs for Chinese enterprises.</p>	<p>promoting industrialization and clustering. I believe overseas industrial parks can have a similar impact. (2) The Chinese government should strengthen support for overseas industrial parks, such as enhancing policy coordination with host countries and improving collaboration among different government departments. In summary, China's OETCZ represents a long-term strategic plan. Their goal is to provide services to Chinese enterprises abroad. Each industrial park functions as a service platform, and together, they form a complete service network. By relying on sustainable and long-term industrial parks, China can gradually improve its global industrial layout.</p> <p>No8: I strongly agree. Zhejiang has many export-oriented manufacturing enterprises with strong demand for overseas investment. When Zhejiang investors establish overseas industrial parks, they attract many Zhejiang-based enterprises. These enterprises collaborate within the parks, leading to industrial clustering and the formation of overseas supply chains. A prime example is TCR, which is operated by a Zhejiang enterprise.</p> <p>No9: The role of OETCZ has been widely discussed, so I won't add theoretical insights. I have two simple thoughts: (1) Overseas industrial parks can prevent Chinese enterprises from investing in a fragmented manner. Instead, they can quickly achieve clustering effects, which help build overseas industrial chains. For example, some Chinese manufacturing firms rely on price wars to secure export orders. Chinese enterprises abroad face similar challenges. Placing them in an industrial park improves communication and consensus-building, reducing excessive price competition. (2) Developing overseas industrial parks requires significant investment. Financial services for these parks should be enhanced, such as encouraging joint investment funds between Chinese and foreign financial institutions. Promoting the internationalization of the RMB would also support Chinese enterprises' overseas investments.</p>
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	<p>This facilitates industrial transfer, which ultimately helps in constructing global value chains.</p> <p>No5: I am pessimistic about this. In theory, it works, but in reality, Chinese enterprises face many difficulties in overseas investment. Some lack experience and planning, while others encounter external barriers. Overall, I think this is a long and challenging journey that requires years of accumulation.</p>	<p>No10: Definitely possible. (1) After more than 40 years of rapid development, Chinese investors have accumulated capital and experience. (2) Since BRI was introduced, the Chinese government has strengthened policy coordination with developing countries and clarified its support for overseas industrial parks. These factors facilitate smooth investments in overseas industrial parks, helping Chinese firms expand abroad and build regional value chains in the long run. (3) Continuous government support is crucial. The introduction of OECTZ shows the government's strong commitment—not just to building industrial parks but to supporting Chinese enterprises' global expansion.</p> <p>No11: I hope it can be achieved, but it will be very difficult. Whether it's Trump's decoupling plan or Biden's "small yard, high fence" strategy, the U.S. is imposing comprehensive restrictions on China. Even with the help of overseas industrial parks, Chinese enterprises will still face many challenges when investing abroad.</p>
<p><b>G4Q2</b></p>	<p align="center"><b>Can the "Park-in-Park" model enhance investor confidence and success rates in overseas industrial park investment?</b></p>	
	<p>No1: (1) The "Park-in-Park" model is not a one-size-fits-all solution; the choice of model should be based on specific circumstances. On the other hand, it is undeniable that the "Park-in-Park" model has greater applicability. (2) The most crucial factor is the recognition and support of the local government for China's overseas industrial parks. A favorable condition is that many developing countries see industrial parks and special economic zones as key reasons for China's rapid development. The operation and growth of China's overseas industrial parks provide these countries with a close-up perspective to observe and analyze China's industrial park and special economic zone model, which they can then apply to their own development. For example, China's overseas industrial parks have significantly influenced the Ethiopian government. The Hawassa Industrial Park in Ethiopia was the first industrial park project led by the Ethiopian federal government, focusing mainly on the textile industry. The actual construction of this park was undertaken by Chinese enterprises, and</p>	<p>No6: Support from the Chinese government is essential. The government needs to better integrate resources and coordinate departments to enhance support in the next. Specifically, it should strengthen overseas resources to assist overseas industrial parks.</p> <p>No7: (1) Based on the performance of China's overseas industrial parks so far, the "Park-in-Park" model has indeed been beneficial. For industrial park investors, it significantly reduces costs. Moreover, it shortens the construction timeline, meeting the urgent market demand from Chinese enterprises wanting to invest overseas quickly, allowing the industrial park to generate revenue earlier. (2) However, the success of overseas industrial parks does not depend solely on the model. Many other factors are crucial to success. In particular, engagement with local governments and societies is vital. Some Chinese investors face resistance because local communities feel that these investments do not benefit them directly. Therefore, both</p>

<p>its successful completion had a significant impact on the local economy. Ethiopia then used this industrial park as a model and rapidly expanded its industrial park development. By the end of 2016, Ethiopia had already developed or was in the process of constructing 11 national-level industrial parks. Since 2013, the Ethiopian government has officially commissioned Chinese research and consulting teams to provide consulting services on Ethiopia's special economic zones.</p> <p>No2: This is not a black-and-white issue—there is no perfect or entirely flawed model. It requires long-term observation to determine the conditions and scope of different models to utilize them effectively. At present, the "Park-in-Park" model has played an important role in the initial phase, but whether it will contribute to long-term sustainable profitability still needs further observation.</p> <p>No3: I prefer the "Non-Park-in-Park" model. Although it has higher costs, it supports the long-term development of industrial parks. Overseas industrial parks have long-term strategic plans, and the current stage is just the beginning. In the future, there will be a second, third, and more phases of development. If the "Park-in-Park" model is used, China's overseas industrial parks may be powerless if their long-term development goals conflict with the overall planning of the existing industrial park unless they exit the existing park. Moreover, the "Non-Park-in-Park" model's costs are not necessarily always higher. Investors can find relatively remote yet strategically located areas with high potential to establish industrial parks. This not only secures local government support (as it aids local industrialization) but also lowers investment costs.</p> <p>No4: This model benefits both the industrial park and enterprises. In other words, urgency makes this model the preferred choice. The current global trend shows that developed countries are pushing for "re-industrialization" and the return of manufacturing, while other</p>	<p>Chinese enterprises and industrial park investors must consider, how to achieve a win-win situation, how can the local community benefit from Chinese investments.</p> <p>No8: The "Park-in-Park" model has been successfully implemented in China, accumulating extensive experience, which can provide valuable insights for overseas industrial parks. A notable example is TCR, which has been a successful case. However, certain conditions must be met for the "Park-in-Park" model to work, such as recognition and support from the local government, long-term alignment of interests between the existing industrial park and the sub-park</p> <p>No9: I want to discuss this from a political influence perspective. One common issue faced by Chinese enterprises investing overseas is their difficulty integrating into local society. A key advantage of the "Park-in-Park" model is that the existing park already has strong relationships with the local government and community. This prevents misunderstandings caused by cultural differences and lack of overseas experience among Chinese investors. Additionally, land acquisition is a major challenge in industrial park development. In many cases, investors must negotiate with individual landowners. Under the "Park-in-Park" model, industrial park investors can lease or purchase land directly from the existing park, simplifying the process.</p> <p>No10: This issue is too broad, and I don't think it is worth discussing at a theoretical level. The key factor is whether industrial park investors have a clear vision and long-term plan.</p> <p>No11: I do not believe success is model-dependent. Simply replicating a model does not guarantee success. Instead, China should leverage its long-term economic cooperation with BRI countries and develop its own unique approach. The Chinese government can support overseas industrial parks through high-level diplomatic dialogue. For instance, since 2017, Jiangsu provincial leaders have had multiple meetings with</p>
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<p>developing countries are competing to accelerate industrialization.</p> <p>China's industrial development is under dual pressure: high-end manufacturing is returning to developed countries, while mid-to-low-end manufacturing is shifting to other developing countries.</p> <p>Particularly since March 2018, with the escalation of the China-U.S. trade conflict, China's industrial development has become a direct challenge to the U.S., indicating that the two nations will enter a prolonged period of industrial competition. Therefore, China does not have much time and must accelerate overseas investment and industrial deployment. Overseas industrial parks serve as fast and effective platforms, providing strong support for enterprises.</p> <p>No5: The key factor is how well the Chinese and host country governments implement and refine their support. Whether it is the Chinese government or the industrial park developers, they must fully consider the host country's actual needs and national macroeconomic strategies during the early-stage investment decision-making process.</p> <p>The goal should be to jointly develop a national-level strategic plan and layout for the host country's industrial parks.</p>	<p>the UAE government to promote the construction of a demonstration industrial park. Both sides have established the "Jiangsu-Abu Dhabi Capacity Cooperation Coordination Meeting" mechanism, engaging in multiple rounds of business negotiations on land, utilities, taxation, and labor policies to accelerate industrial park development.</p>
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## Annex 3: Research findings contributing to the conclusions of Chapter 6

<b>Group 1: Investors and Operators of Overseas Industrial Parks</b>				
	<b>TCR</b>	<b>KITIC</b>	<b>LJIP</b>	<b>VCEP</b>
<b>G1Q5</b>	<b>How has the chosen model helped during the construction process?</b>			
	<p>No1: Very smooth process. With extensive support from the existing industrial park, construction was accelerated. As result, our park could be put into operation ASAP.</p> <p>No2: The "Park-in-Park" model brought two benefits. (1) Land purchasing from citizen is not easy. AMATA had already completed land acquisition from local residents, preventing disputes between us and residents. Because we purchase land from AMATA. (2) It helps a lot in the construction process, especially AMATA's industrial park construction experience in Thailand provided a lot inspiration.</p> <p>No3: It is important that the existing park has already provided a lot of pre-built infrastructures such as land leveling, electricity, and water</p>	<p>No4: Smooth process, as this model help avoiding two common challenges faced by overseas industrial park: (1) After construction, people figured out that the neighboring infrastructure is insufficient for production such as electricity supply. It required the park to pay additional investment on solving problem. (2) Land purchase will always have to negotiate with local residents. Sometimes it will lead to misunderstanding.</p> <p>No5: Smooth construction. With the help of existing industrial park, we can better communicate with local government and society. And their pre-built infrastructure lowered our costs.</p>	<p>No6: The "Non-Park-in-Park" model may be helpful under certain conditions, but its applicability is more limited than the "Park-in-Park" model.</p> <p>No7: The "Non-Park-in-Park" model has no direct assistance. Maybe it will be good thing that it requires us to communicate more often and directly with local government and society. The closer relation will foster long-term local integration.</p> <p>No8: No obvious impact on construction (with this model). But we don't need it, as we are familiar with Vietnam, so we can select a well-located, low-cost site, more preference policy from local government.</p>	<p>No9: No direct help from the "Non-Park-in-Park" model. But we don't really care about the benefit of the model in the construction phase. Because our priority goal is to have better development align with the local development plan. That's why we choose the site in the north Vietnam because here will be the focus of the development plan.</p> <p>No10: Government support was more influential than the investment model. As a public enterprise from Shenzhen, we have received the strong backing from Shenzhen government (in China) and Haiphong government (in Vietnam).</p> <p>No11: It is difficult to compare both models with the costs. The "Park-in-Park" model helps in reducing cost with its pre-built</p>

	supply. This really helpful.			infrastructure. The “Non-Park-in-Park” model can also reduce costs, as long as the investor find a place with lower land costs and more preference government policies
<b>G1Q6</b>	<b>How has the chosen model helped during the operation process?</b>			
	<p>No1: The “Park-in-Park” model has advantages in operation. The existing park can provide enterprises with more comprehensive and professional services, such as one-stop services and financial services, making the industrial park more attractive.</p> <p>No2: The main benefit is the ability to offer more and better services.</p> <p>No3: (1) In this model, the existing park can provide more comprehensive and professional services. (2) More importantly, it has great future potential for Chinese enterprises within our park. Many multinational enterprises from around the world are already present in the existing park, then Chinese enterprises within our park can have bmore opportunities to collaborate with these global</p>	<p>No4: (1) The exiting park can offer a full range of professional services, such as one-stop service, which is crucial in the early stages of China’s overseas industrial park development. Because it can help the industrial park become more attractive to enterprises compared to other newly built parks. (2) But over time, restrictions from the existing park become increasingly evident. For example, the existing park can continuously raise land and infrastructure costs, while our China’s overseas industrial park has little bargaining power.</p> <p>No5: (1) A key advantage of the model is many large multinational corporations in the existing park, particularly the Japanese multinational enterprises. It increases collaboration opportunities for</p>	<p>No6: No significant benefits from the model. In fact, this has little to do with the model itself. The key factor is whether the industrial park operator has sufficiently realized about the local investment environment. The park should know what resources they can use and how to use it good. That is the core competitiveness of the park.</p> <p>No7: Compared to the "Park-in-Park" model, our advantage lies in greater autonomy, which facilitates better coordination among enterprises within the parl. In contrast, in the “Park-in-Park” model, the existing park’s industrial development plans and positioning may impose operational and strategic constraints on the China’s overseas industrial park.</p> <p>No8: The model is irrelevant. (1) Success of the industrial park</p>	<p>No9: No comment.</p> <p>No10: No benefits from the so-called “Non-Park-in-Park” model. The model has little to do with the successful operation. There are two key factors that contribute to this. (1) Government support. China and Vietnam have agreements supporting China’s overseas industrial parks, but the real challenge is ensuring their proper implementation by the local government. (2) Another crucial factor is the investor’s identity and reputation, which significantly influence enterprises’ decisions to enter the park. For instance, our industrial park is invested in and operated by a public enterprise from Shenzhen, which has strengthened confidence of enterprises.</p> <p>No11: I had considered the issue</p>

	corporations.	Chinese enterprises. (2) But this model could also be a limitation, as the leading enterprises in the existing park have already determined the industrial structure, preventing the China's overseas industrial park from attracting outstanding enterprises that do not fit with this structure.	investment relies on the operator's familiarity with the local environment. (2) The operator's familiarity with the Chinese enterprises within the park is also crucial. For example, many enterprises within the park were our partner before or came from the same Chinese city with us, all of this fostering mutual trust and enhancing operational efficiency.	but have not yet found an answer.
<b>G1Q11</b>	<b>Aside from the impact of the existing industrial parks mentioned in G1Q7, what other challenges do overseas industrial parks face in attracting enterprises?</b>			
	<p>No1: Considered this issue but has not yet found an answer. Financial pressure might be a major factor.</p> <p>No2: We don't see the challenges. I am optimistic. (1) The park can continue leveraging the advantages of the existing park to provide better infrastructure and services, attracting more enterprises. (2) We come from Zhejiang province, China. And many Zhejiang-based enterprises have overseas investment needs. Long before the park's completion, these enterprises and we had already established cooperation agreements.</p>	<p>No4: (1) Enterprise hesitation is an issue. Many Chinese enterprises lack overseas investment experience, clear plans, and selection criteria, making them indecisive. Some enterprises contacted several China's overseas industrial parks in Southeast Asia but ultimately made no decision. (2) Additionally, China's industrial parks in Southeast Asia offer similar incentives, such as tax exemptions and foreign investment benefits. This makes enterprises' decision-making more difficult, as enterprises struggle to evaluate the real advantages and challenges of investing in a specific location.</p>	<p>No6: No significant issues. With over 20 years business experience in Vietnam, we are highly familiar with the local environment. Moreover, many enterprises intended to enter our enterprises had contacted us in advance, particularly Zhejiang-based enterprises.</p> <p>No7: Since China's industrial parks in Southeast Asia generally offer similar incentives, enterprises find it difficult to choose. Some of them hesitated too long, missing the best investment opportunities or strategy shifts due to international market changes.</p>	<p>No9: The investor and operator of our park is a public enterprise from China. We have confidence in our credibility and influence. The real issue may lie in those enterprises lacking clear investment criteria.</p> <p>No10: I'm not sure about this. Maybe two challenges. (1) Each enterprise will present many demands, which cannot all be met at same. Some requests seem unnecessary, and many enterprises lack well-defined, specific needs, making it unclear what services should be prioritized. (2) Another factor may be the park's limited experience, as it has been in</p>

	<p>No3: Choosing an industrial park is a difficult decision for enterprises, as they need to consider many factors. We cannot help in this field. What we can do best is to strengthen cooperation with the existing park and improve infrastructure and services to meet investment needs.</p>	<p>No5: The biggest challenge comes from the existing park's influence. What we can do is to focus efforts on overcoming this issue. The strategy has shifted from exclusively attracting Chinese enterprises to inviting international corporations that align with the industrial structure of the existing park. This enhances the park's scale and promotes collaboration on larger projects.</p>	<p>No8: (1) Insufficient promotion in China may be a factor, so efforts are being made to increase online population of our park. (2) Another issue is that some enterprises seek highly customized infrastructure and services tailored to their production needs. However, the park's construction already took high costs, leaving insufficient funds to meet these specific demands, leading enterprises to choose other industrial parks.</p>	<p>operation for less than ten years. Over time, a more mature business and operational model is expected to emerge, improving the ability to attract enterprises.</p> <p>No11: Financial pressure is significant. Chinese financial institutions often refuse loans due to the high risks of overseas investments, while host-country banks are cautious about lending to Chinese investors.</p>
<p><b>G1Q12</b></p>	<p align="center"><b>Do you agree with Perspective One in Chapter 6, which compares the cost advantages of investment in inland China and investment in Southeast Asia?</b></p>			
	<p>No1: Disagree. In practice, enterprises do not strictly distinguish between production costs and trade costs (risks). Their main concern is reducing overall costs and risks. This classification is too vague. They focus more on specific steps that can lower costs, which I believe our park can provide help.</p> <p>No2: Agree. Many enterprises increasingly recognize that lowering trade costs is a key advantage of investing in Southeast Asia. It is more important than reducing production costs, especially</p>	<p>No4: I feel this is right. But I have not deeply considered this.</p> <p>No5: (1) Hard to answer. Chinese enterprises investing in Southeast Asia seek to gain both cost advantages. They want to retain their low costs competitiveness, avoid being replaced. (2) However, achieving this in practice is uncertain due to unexpected challenges. For instance, while land, raw materials, and labor costs are low in Southeast Asia, infrastructure and workforce training require significant investment, which offsets cost</p>	<p>No6: The classification is useful for comparison, as it highlights the distinct advantages of investing in China's inland regions versus overseas.</p> <p>No7: I agree theoretically. But I cannot find strong evidence for it. Sometimes I feel that Chinese enterprises care about both and these two are equally prioritizing to them.</p> <p>No8: Agree. Many enterprises initially sought to minimize production costs by leveraging Southeast Asia's low labor and land costs. However, they later</p>	<p>No9: (1) Through comparisons, the inland investment advantages are more evident for us. In this way, we can truly avoid misunderstandings in different cultural, legal, and economic system, which are really challenging to us now. (2) For Chinese enterprises' overseas investments, I feel that both production and trade cost advantages are important. Prioritization of these two depends on specific enterprise needs.</p> <p>No10: Difficult to compare the advantage in production cost</p>

	<p>after the U.S.-China trade war and decoupling policies.</p> <p>No3: It's uncertain for me, as we have no standard to compare the reduction in production costs and trade costs. But the good thing is, the unique advantages of investment in inland China and in Southeast Asia will be much clear, through comparisons.</p>	<p>reductions.</p>	<p>discovered challenges: (1) While raw materials, labor, and land were cheaper, inadequate infrastructure and low workforce skill levels limited cost reductions. (2) Meanwhile, the U.S.-China trade war and decoupling policies made Southeast Asia increasingly attractive for reducing trade risks for Chinese enterprises.</p>	<p>and trade cost, as both are essential for enterprise overseas investments.</p> <p>No11: I agree with this. For my knowledge, reducing trade costs is a strong incentive to Chinese enterprises, particularly after the U.S.-China trade war. This classification also helps enterprises reflect on and clarify their core overseas investment objectives or needs.</p>
<p><b>G1Q13</b></p>	<p><b>Do you agree with Perspective Two in Chapter 6, which suggests that enterprise's short-term and long-term goals help explain its decision to choose a China's overseas industrial park?</b></p>			
	<p>No1: I'm not familiar with this.</p> <p>No2: This classification is problematic as the boundary between short-term and long-term is unclear. In reality, Chinese enterprises in Southeast Asia frequently face sudden changes that disrupt their initial plans, forcing constant adjustments. Enterprises need to focus on these sudden changes and adjustments rather than long-term goals unless they become multinational corporations.</p> <p>No3: Many enterprises I knew about here had long-term</p>	<p>No4: It is a useful perspective. For example, land purchase or lease prices in our industrial park may not be the lowest among those in Southeast Asia, but still some enterprises chose this park, because they prioritize investment environments and long-term development potential.</p> <p>No5: The classification is helpful for explanatory, but its practical application is doubtful. Because enterprises' decision-making process are highly complex, often considering both short- and long-term factors simultaneously.</p>	<p>No6: The classification is too vague and needs clearer definitions of short-term vs. long-term. For instance, lowering production costs should not be automatically classified as a short-term goal, just as product innovation should not be limited to long-term objectives. Toyota's production model of "Just In Time", for example, treated cost reduction as a long-term strategic goal, which ultimately succeeded.</p> <p>No7: A valuable perspective. Some China's industrial parks in neighboring countries offer</p>	<p>No9: It is helpful for understanding the behavior of the enterprises, but I'm not sure if it can be strictly applied in reality.</p> <p>No10: The classification is useful and applicable in practice. And a short-medium-term and long-term division may be more appropriate. Many enterprises enter industrial parks primarily to accumulate their overseas experience. Once they develop their strategies and business models, they may leave the park to seek more local government support for their larger-scale investments. Thus, entering an</p>

	overseas investment plans.		<p>lower prices, yet enterprises still chose this park because it is near Vietnam's economic center city, Ho Chi Minh City, which is crucial for their long-term growth.</p> <p>No8: A useful perspective that helps enterprises reassess and refine their overseas investment strategies.</p>	<p>industrial park can be regarded as a short- -medium-term goal.</p> <p>No11: The classification is necessary but should be more detailed in defining short- and long-term considerations.</p>
<b>G1Q14</b>	<b>Compared to other industrial parks, what is the main attraction of China's overseas industrial parks for enterprises?</b>			
	<p>No1: We are confident for the following reasons. (1) Our park is the longest-established and most well-developed China's overseas industrial park in Thailand. (2) The existing park has significant resources, allowing enterprises within our park to benefit from better services and infrastructure. The key attraction may be lie in that China's overseas industrial park can providing a Chinese-language business environment that facilitates communication, collaboration, and risk-sharing among the enterprises.</p> <p>No2: (1) A major factor is the strong economic ties between China and Thailand, leading many enterprises to choose Thailand as an investment</p>	<p>No4: Honestly, there are no particularly strong advantages yet. Most of our park's appeal currently comes from what the existing park offers. (1) An excellent geographic location. (2) Services such as a one-stop administrative approval office and tax incentives. This means our park's unique advantages are not yet clear, and we need to carefully analyze what makes us stand out.</p> <p>No5: (1) Our park is invested in and operated by a public service enterprise from Guangxi. Because of this, some Chinese enterprises have more trust on us, such as in terms of our stable financial support and smoother communication with local governments from both sides.</p>	<p>No6: (1) Government support is critical, that's why we actively engage communication with both local governments and local communities. (2) Before construction was completed, many enterprises from my province in China had already contacted us. Cultural and geographic familiarity helps to increase the attraction to a certain degree. (3) We have a clear understand of Chinese enterprise needs. Many of them prioritize gaining experience in overseas investment and production. To support this, we try our best to offer cost-effective rental services for general-purpose equipment, allowing enterprises to achieve their goal with minimal cost.</p>	<p>No9: I have some feeling about this, but no well-structured conclusions yet.</p> <p>No10: As a public enterprise, our role contributes to gaining significant trust from the enterprises. Additionally, my hometown government, Shenzhen government has helped strengthen ties with the Haiphong government here in Vietnam.</p> <p>No11: (1) It's complicated to answer. I think site selection is a major factor in attracting enterprises. Our park is located in northern Vietnam, where Vietnamese government will promote heavily in the next years according to their development plan. This is</p>

<p>destination. Since this is the longest-established and largest China's overseas industrial park in Thailand, it naturally becomes the top choice. (2) Additionally, the park has an accurate understanding of enterprise needs. Many enterprises seek quick overseas investment deployment, and the "Park-in-Park" model allows for rapid construction, making the park highly attractive.</p> <p>No3: (1) Government support is crucial, not only aiding in the establishment and operation of the industrial park but also increasing enterprise confidence. When enterprises see strong backing from both governments, they naturally trust the park more. Just like when our park began, we received high-level government support from both sides. (2) Many enterprises use overseas investment to gain foreign experience according to our knowledge. Our park allows them to achieve this at a relatively low cost. Moreover, they can also have more chances to study from and cooperate</p>	<p>(2) Another key advantage is our certification of national OETCZ, which enhances our popularity and credibility. (3) More broadly, the strengthening of China-Indonesia economic ties has driven an increasing number of enterprises to invest overseas and enter in our park. (4) I'm not sure now but I think this may be right. After Chinese enterprises enter in our park, they will have strong growth potential in the future. Because they can engage with world famous multinational enterprises in the existing park.</p>	<p>No7: No clear thoughts on this yet, but competitive pricing may be a key attraction for enterprises.</p> <p>No8: I have no idea, but I agree with insights from Chinese experts and officials. Some of them argue that the advantage of China's overseas industrial parks lies in clustering Chinese enterprises abroad. Overseas industrial park, serve as a platform, can foster collaboration, cost-sharing, and risk reduction among these enterprises. It is particularly important for Chinese SMEs manufacturers reliant on export orders.</p>	<p>evident in the expanding highways and ongoing infrastructure development. That's why some Chinese enterprises choose us rather than LJIP, which also located in Vietnam. (2) Moreover, the key advantage of China's overseas industrial parks is providing a platform where Chinese enterprises do not face language or cultural barriers. Collaborating and sharing resources further reduces overseas investment risks and costs, allowing enterprises to develop more effectively.</p>
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	with the multinational corporations within the existing park.			
<b>Group 2: Enterprises Managers within Overseas Industrial Park</b>				
	<b>TCR</b>	<b>VCEP</b>	<b>LJIP</b>	<b>VCEP</b>
<b>G2Q2</b>	<b>Did you hesitate when deciding between investment in inland China and investment in Southeast Asia? Did you compare these two?</b>			
	<p>No1: A comparison was made, but no clear conclusion was reached. As a result, investments were made both in inland China and Southeast Asia.</p> <p>No2: We did not have a clear conclusion. As a result, we invested in both locations.</p> <p>No3: No comparison. Internationalization through overseas investment has always been our strategic positioning.</p> <p>No4: A comparison was conducted, and it was concluded that investment in inland China had more advantages. However, overseas investment was also seen as having great potential and could not be abandoned. As a result, the group allocated most resources to investments in China's inland areas while dedicating a smaller portion to Southeast Asia as a trial.</p>	<p>No6: A comparison was made, but no clear conclusion was reached. Investments were made in both locations.</p> <p>No7: Initially, we invested in China's inland areas, but challenges and difficulties led to an exploration of overseas investment as an alternative way. The main reason is that BRI was proposed at that time, which boosted our decision on overseas investments.</p> <p>No8: Comparison was made, and overseas investment was found to be more aligned with our needs, particularly with reducing production costs and expanding into international markets.</p>	<p>No9: We decided to focus on the investment in inland China, as we believed that inland China had more advantages. But, at same time, we allocated a portion of resources to overseas investment as a trial, with the possibility of expanding into foreign markets in the future.</p> <p>No10: No comparison was needed. We had already done the business in Vietnam for nearly 20 years, with a clear internationalization strategy from the beginning.</p> <p>No11: I don't know the decision process, as it was solely decided by the chairman himself.</p>	<p>No12: The growing economic relationship between the two countries influenced our decision to invest overseas. Vietnam was chosen partly because of its socialist system, which similar to China.</p> <p>No13: After the U.S.-China trade war, we began to realize the importance of international investment. That's why we are here now.</p> <p>No14: Unclear, as this decision was made long before I joined the company.</p> <p>No15: The decision was influenced by recommendations from business partners, who introduced Vietnam's potential and favorable conditions. After thorough evaluation, comparison, and discussions, we made the final investment decision.</p>

	No5: I'm not from the decision department, not clear about it.			
<b>G2Q3</b>	<b>Do you agree with Perspective One in Chapter 6, which compares the cost advantages of investment in inland China and investment in Southeast Asia? Does this help explain your decision-making or clarify your future investment strategy?</b>			
	<p>No1: I generally agree with the advantages of investment in inland China. I am not sure what should be the key advantages of overseas investment. Both production cost reduction and trade cost reduction are equally important to us.</p> <p>No2: I do not agree. The advantages in inland China or in Southeast Asia are both difficult to assess in the early stages, further observation is required. I feel that production cost reduction appears to be the main advantage of overseas investment in the future.</p> <p>No3: Our investment is focused on overseas markets. Overseas investment is generally recognized for its advantages in reducing both production and trade costs. But I believe the advantage of production cost reduction is much more obvious.</p> <p>No4: A comparison of investments in China's inland</p>	<p>No6: Does not agree. The investment experience so far has created more confusion than clarity. Many of the assumed advantages have not been realized in practice. The difficulties encountered in both China's inland areas and Southeast Asia far exceed the expected benefits. And for the advantages of lower production and trade costs, for myself, they are still theoretical and need to be proven.</p> <p>No7: No definitive answer yet. Investments in both China's inland areas and overseas are still in their early stages, and many advantages have yet to materialize. Further observation is needed.</p> <p>No8: Partially agrees. Overseas investment should provide both lower production and trade costs. However, the effectiveness of these advantages depends on the enterprises' ability to leverage</p>	<p>No9: The classification helps explain past investment decisions: (1) It rationalizes why the group focused primarily on domestic investment in China. (2) It clarifies the primary purpose of overseas investment. (3) A key realization is that some advantages cannot be fully realized, which are only theoretically. For instance, plans to expand production using cost advantages were hindered by a lack of sufficient funding, as Chinese financial institutions are highly cautious about overseas investments, and host country banks are equally restrictive toward foreign businesses.</p> <p>No10: This perspective is insightful. (1) My own experience supports it—investments here in 2008 helped circumvent U.S. trade restrictions on Chinese exports in 2009. (2) Inspiration also applies to overseas industrial parks. The classification highlights the challenges</p>	<p>No12: I can see the value if this classification works. In this way, this can help enterprises focus on "reducing trade costs" as an investment goal. This will likely become increasingly important as U.S. trade restrictions on China intensify.</p> <p>No13: As I have mentioned before, our investment was explicitly aimed at reducing trade costs and risks.</p> <p>No14: The classification is useful for distinguishing the roles of domestic and overseas investments. The company's inland factories have already optimized production costs. So we (overseas investment) don't have to take production costs as our main goal, but focus on accumulating overseas production experience and minimizing trade risks.</p> <p>No15: The classification helps explain our overseas</p>

	<p>areas and Thailand led our headquarters to reaffirm the importance of domestic investment. As a result, our board of directors increased resource allocation to domestic projects. They identified the main purpose of overseas investment at same time—to gain experience for long-term internationalization.</p> <p>No5: Overseas cost advantages have not been as significant as expected due to hidden and unexpected extra costs. Trade cost reduction has become more apparent, especially after the U.S.-China trade war and the U.S. decoupling strategy.</p>	<p>them, as they are only potential advantages rather than guaranteed outcomes.</p>	<p>Chinese enterprises face when investing overseas. Many of these issues cannot be solved by enterprises alone. Overseas industrial parks should play a role in improving investment conditions, such as offering better financial services. Financial services remain one of the greatest challenges to us now. Firstly, Chinese financial institutions impose strict conditions on overseas investments. Secondly, host country financial institutions also have stringent requirements for Chinese businesses. Thirdly, I think we can hardly get help from BRI, as financial services of BRI primarily cater to overseas project of state-owned enterprises.</p> <p>No11: For overseas investment, the question remains—should overseas investment be seen as a production cost advantage or a trade cost advantage? But I think it is too early to answer. It still needs time to observe. And maybe we can never find an answer, because the primary needs of enterprises vary at different stages, their</p>	<p>investments and clarify future objectives. Initially, the focus was on leveraging low production costs. But when we look back, we find out that the most attractive aspect was actually mitigating trade risks. A notable example was during the U.S.-China trade war, when products manufactured domestically faced export restrictions, while those produced overseas did not encounter the same issues.</p>
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			positioning of the primary advantage of overseas investment will also differ.	
<b>G2Q4</b>	<b>What was the biggest difficulty in choosing an overseas industrial park? How did you finally make your decision?</b>			
No1: No difficulties were encountered, as the industrial park developer was a long-term business partner to us, and we both came from the same Chinese city. So, we selected this park at the very beginning.	No6: The main challenge was excessive competition among several China's overseas industrial parks in Southeast Asia. After evaluating overseas industrial parks in Thailand, Vietnam, and Indonesia, we figured it that most of them offered similar conditions, leading to a hard decision for us. The final decision was influenced by a trusted business partner already operating within this park. Meanwhile, multinational corporations in the existing park was also a factor, as they could be potential future partners.	No9: There were challenges, but it wasn't too difficult for us. At that time, our headquarters was mainly focused on investing in inland China, while overseas investment was seen as a way to gain international experience. So, we chose the most well-known and fastest-growing overseas industrial park. Additionally, we visited and evaluated the park multiple times before making the decision, and we were relatively satisfied with the results.	No12: We didn't face any difficulties. The industrial park developers are from the same city in China as we are, so we are familiar with them and trust them. Additionally, since they are a public enterprise, we have confidence in their capabilities.	No13: There were some difficulties, but not major challenges. Since the industrial park investors are also from our home city in China, we understand and trust them. Moreover, we learned that Vietnam plans to further develop its capital and nearby cities, creating a northern economic belt. This industrial park is strategically located in the middle of that economic zone.
No2: We had no difficulties. We were very clear to investment in Thailand. The reason we choose this park because this was largest China's overseas industrial park in Thailand, which had the certification of national OETCZ.	No7: After deciding to invest overseas, we wanted to act immediately. The chosen industrial park was nearing completion at that time, and its pricing was reasonable.	No10: We are quite familiar with Vietnam, which gave us a clearer understanding of this industrial park's potential for development. Moreover, the investors behind the park are Chinese enterprises that have been investing in Vietnam for a long time. We know and trust them well.	No14: Our decision was based on a comprehensive evaluation: (1) Vietnam, like China, is a socialist country, and economic and trade relations between China and Vietnam are growing	
No3: We had prior investment experience in Thailand and naturally chose the most reputable and largest industrial park. We didn't hesitate when choosing an industrial park.	No8: The biggest challenge was our lack of clear evaluation criteria, combined with the homogeneous competition	No11: We conducted a detailed assessment and comparison before making our decision. In		
No4: The biggest challenge was the lack of overseas investment experience, making us difficult to make an informed decision. Ultimately, the investment was made based on confidence in				

	<p>the future of China-Thailand economic relations.</p> <p>No5: We had evaluated several China's overseas industrial parks in Southeast Asian. Recommendations from some Chinese enterprises in Thailand played a decisive role in our decision-making. Another decisive role is that the developer of the park and we originated from both Chinese province, Zhejiang Province.</p>	<p>among overseas industrial parks in Southeast Asia, which made our decision even more difficult.</p> <p>Ultimately, we chose this industrial park because BRI was proposed at that time. Indonesia was one of the most important countries in BRI.</p>	<p>the end, we made our choice based on a comprehensive evaluation of pricing and location.</p>	<p>stronger; (2) Time was a critical factor—this park had a fast construction pace and well-equipped facilities and services;</p> <p>(3) We share the same hometown as the park's investors, which fosters familiarity and trust. Additionally, many fellow townspeople are already in the park, which facilitates cooperation and mutual support.</p> <p>No15: Apart from the industrial park offering competitive pricing, another key factor was the presence of several enterprises from our home city in China. They provided valuable introductions and insights, and being in the same industry, we felt that mutual trust and collaboration would be easier to establish.</p>
G2Q5	<p align="center"><b>Do you agree with Perspective Two in Chapter 6, which suggests that the enterprise's short-term and long-term goals help explain its fundamental overseas investment needs and the choice of the industrial park?</b></p>			
	<p>No1: Agrees with the classification. We had a clear long-term plan to build a large-scale production base overseas. However, this did not significantly impact the decision-making process for choosing an</p>	<p>No6: Theoretically, this classification helps reflect enterprise needs and explains decision-making for industrial park selection. But in fact, when choosing an industrial park, the enterprise will not have explicitly</p>	<p>No9: The classification has no effects on the enterprise' decision-making in selecting an industrial park. Our long-term goal is internationalization, while the short-term goal is to accumulate overseas investment</p>	<p>No12: Agrees. The decision to choose an overseas industrial park was based on two main factors: (1) We and the park's developer are from the same city in China, fostering familiarity and trust. (2) The primary goal of</p>

	<p>industrial park, as most China's overseas industrial parks in Southeast Asia offer similar advantages. Ultimately, the decision was based on familiarity and trust in the investor of industrial park.</p> <p>No2: Disagrees with the classification. It is unclear whether the enterprise's plan is short-term or long-term. The primary goal is simply to reduce costs through overseas investment, maintain or expand existing orders, and avoid being replaced in the market.</p> <p>No3: Agrees. We have a clear long-term plan to become a multinational enterprise through internationalization. To achieve this goal, selecting an industrial park that supports long-term development is essential. The chosen park offers a good environment for accumulating experience, which is crucial for shaping our internationalization strategy. Thailand's geographical location and increasing global integration provide further confidence in our choice.</p>	<p>defined short-term or long-term goals. Instead, the primary selection criteria were price and recommendations from business partners.</p> <p>No7: Disagrees with this classification. We lacked a detailed long-term plan or the ability to establish one due to limited experience in international investment. In this case, we paid more attention to address immediate challenges and continuously adjusting strategies to overcome them. Your classification might be useful, it did not apply to our situation.</p> <p>No8: Agrees with the classification. We had a clear plan from the beginning. BRI accelerated the implementation of our overseas investment. After careful consideration, the chosen industrial park was deemed the most beneficial for our long-term development, even though it did not offer the lowest prices.</p>	<p>experience at the lowest cost. Regardless of the goal, we will ultimately choose this industrial park. Because our criterion for selecting the industrial park is cost-effectiveness.</p> <p>No10: Disagrees, as the classification does not reflect reality. Many Chinese enterprises lack overseas investment experience and cannot develop long-term plans in rapidly changing markets. Even if they have long-term plans, their initial overseas investments are focused on solving unexpected challenges rather than executing a predefined strategy.</p> <p>No11: Disagrees, citing two key points: (1) The assumption of a clear division between short-term and long-term planning is unrealistic. (2) Even if such a classification were feasible theoretically, it would not be applicable in reality. Most Chinese enterprises here lack international investment experience and cannot create or smoothly implement long-term strategies.</p>	<p>our overseas investment was cost reduction. We prioritized selecting an industrial park with the lowest entry cost.</p> <p>No13: Agrees. Our long-term goal is to become a multinational enterprise, while the short-term goal is to accumulate experience in overseas production and trade costs mitigation. Additionally, the developer of this industrial park is a Chinese public enterprise, which can get stronger governmental support from both China and the host country.</p> <p>No14: The classification is not strongly related to our decision to select the industrial park. Instead of dividing goals into short-term and long-term categories, the focus should be on whether a enterprise has a clear investment objective. For example, we had two specific goals: (1) Accumulate overseas experience, and (2) Minimize overseas investment costs due to limited capital. Therefore, we selected the lowest-priced industrial park suitable for</p>
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	<p>No4: Mostly agree. We had a general long-term plan and clear division of the investments in inland China and Southeast Asia.</p> <p>While our main investment focus remains in inland China, overseas investment is designated to preparation for further internationalization. As a result, the decision to select an industrial park was only partly related to the goals mentioned above. The crucial role in the decision-making was pricing and geographic advantages.</p> <p>No5: Disagrees, as the division between short-term and long-term planning lacks clear boundaries, and the definitions of short-term and long-term goals are ambiguous.</p>			<p>gaining experience.</p> <p>No15: Disagrees because many SMEs investing in Southeast Asia lack international investment experience and the ability to implement long-term plans. As a result, we cannot use short-term/long-term perspectives to select an industrial park. Instead, we rely on recommendations from government officials and business partners. Once the choices were narrowed to 3-4 industrial parks, the final decision was based on price.</p>
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**Group 3: Members from Chinese Chamber of Commerce near Overseas Industrial Parks**

	Chinese Chamber of Commerce near TCR	Chinese Chamber of Commerce near KITIC	Chinese Chamber of Commerce near LJIP	Chinese Chamber of Commerce near VCEP
<b>G3Q6</b>	<b>In terms of investment needs, what are the most noticeable differences between you and enterprises within overseas industrial parks?</b>			
	<p>No1: Our business is in sales, so we do not need to enter the industrial park for production.</p> <p>No2: From the information I have received, the primary goal of enterprises within the industrial</p>	<p>No4: Our situation is different. We have already established a complete industrial chain here, and our next goal is to export products to China. In contrast, enterprises in the industrial park are likely exporting their</p>	<p>No8: Our needs are different, but this is not a bad thing. It actually means that we have significant opportunities for collaboration with enterprises in the industrial park. For example, with our extensive overseas business</p>	<p>No10: There is no real distinction—both of us aim to reduce production costs. That’s why we are currently in discussions with the industrial park operators to assess whether we should also enter the park.</p>

	<p>park is to establish overseas production bases as part of their internationalization strategy. The reasons behind this are: (1) encouragement from Chinese policies and initiatives, which have given them confidence in overseas investments; and (2) the driving force of overseas markets. Setting up production abroad not only reduces costs and secures their existing international orders and market share but also helps them expand into new markets in the future.</p> <p>No3: I am not familiar with their specific needs.</p>	<p>products to European and American markets.</p> <p>No5: I am not fully aware of the needs of enterprises within the industrial park. However, it is possible that they are investing here because production costs in China are too high. If that is the case, then our needs are similar.</p> <p>No6: We are considering transitioning by relocating our production lines here to reduce costs. We may also enter the industrial park, but there are two key differences between us and the enterprises already there. (1) Our primary business is still product sales, so we are not as eager to enter the industrial park as they are. (2) We have a better understanding of the local market, allowing us to conduct more detailed assessments and comparisons before selecting the most favorable industrial park for us. It is possible that our final choice may not be a Chinese overseas industrial park.</p> <p>No7: Our situation is different because we are engaged in international trade services. This</p>	<p>experience, we can provide them with international trade consulting, local market expansion advice, logistics services, and more.</p> <p>No9: Our situation is completely different. We invested overseas to expand our sales market in Southeast Asia.</p>	<p>No11: We didn't consider it before, but now we are re-evaluating whether we should enter the industrial park. Previously, we had a clear division of responsibilities with our headquarters in China—they handled production and shipping to Vietnam, while we focused on sales. In recent years, we have been preparing to move our production lines to Vietnam to manufacture and sell locally. This would significantly reduce costs. If we proceed with this plan, we will definitely choose to enter the industrial park. That being said, our focus will still be on selling to the Vietnamese domestic market rather than exporting to Europe or the U.S.</p> <p>No12: Our needs are no different from those of the enterprises within the industrial park. We have been in Vietnam for a long time and have already set a location to set up our factory.</p>
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		means that Chinese enterprises within the industrial park could potentially become our clients, creating significant opportunities for collaboration.		
<b>G3Q7</b>	<b>Perspective One in Chapter 6 states that the main purpose of Chinese enterprises investing overseas is to reduce trade costs. Do you agree? Can overseas industrial parks be helpful?</b>			
	<p>No1: I completely agree. We are engaged in international trade, and this is indeed one of the key advantages of overseas investment.</p> <p>No2: I agree.</p> <p>No3: I agree, but the advantages of overseas production should include both reducing production costs and lowering trade costs.</p>	<p>No4: I disagree. (1) The main advantage of overseas investment is reducing production costs. (2) Since we export products to China, it has nothing to do with the advantage of lowering trade costs.</p> <p>No5: I disagree. The key factor in overseas investment is reducing production costs.</p> <p>No6: I'm not sure. Our work focuses on selling Chinese products here, which is not directly related to production or trade costs.</p> <p>No7: I completely agree. We are engaged in international trade, so we pay close attention to tariffs, trade logistics, and related information. This is precisely one of the advantages of overseas investment.</p>	<p>No8: I completely agree—reducing trade costs is extremely important, and we have experienced this firsthand. In fact, the advantage of low production costs in Southeast Asia is not as significant as it seems. While some countries do offer cheaper land, raw materials, and labor wages, their infrastructure often lags behind. For example, they may lack highways, stable electricity to support factory operations, or vocational training programs. Without adequate infrastructure, cost advantages become meaningless for businesses.</p> <p>No9: Which countries are considered "overseas"? The advantages vary by region. For instance, when Chinese enterprises invest in Europe or the U.S., their focus is on R&amp;D. When investments in Southeast</p>	<p>No10: I disagree. (1) From what I understand, investing in China's inland regions is not solely about reducing production costs—many enterprises also seek to expand their market presence there. (2) Regarding the advantages of overseas investment, I believe that reducing production costs should take higher priority over lowering trade costs.</p> <p>No11: I am not familiar with the advantages of investing in inland China. As for overseas investment, I generally agree with its benefits, but I also believe that reducing production costs and trade costs is equally important. That's why we are currently considering setting up a factory here.</p> <p>No12: I completely agree, especially given the escalating U.S.-China trade tensions. This</p>

			Asia are primarily driven by the goal of reducing production costs.	factor is particularly crucial for export-oriented Chinese manufacturing enterprises.
<b>G3Q8</b>	<b>Perspective Two in Chapter 6 categorizes Chinese enterprise investment needs into short-term and long-term goals.</b>			
	<b>Do you agree? Can overseas industrial parks meet these short-term and long-term needs?</b>			
	<p>No1: I agree, and I think this is helpful.</p> <p>No2: I am not familiar with this because we did not set short-term or long-term goals when we invested. Additionally, we do not need to enter the industrial park.</p> <p>No3: In theory, this approach is good, but I think it is difficult to implement in practice. (1) It is challenging to follow a predetermined plan, especially in developing countries, where unexpected situations frequently arise. Investors must constantly deal with these unforeseen challenges. (2) Planning long-term goals in advance is not very meaningful. For example, at the beginning of our investment here, our goal was to establish a complete industrial chain. But we later realized that it was not feasible because of so many unexpected problems. After continuous exploration and adjustments, we finally</p>	<p>No4: It is necessary, but only if one has a deep understanding of the investment destination. Otherwise, this perspective is only theoretically useful.</p> <p>No5: No comment.</p> <p>No6: No comment.</p> <p>No7: Based on our experience, setting short-term and long-term goals is not meaningful. In overseas investment, many unexpected situations arise, making pre-planning ineffective.</p>	<p>No8: I haven't made up my mind yet and cannot answer this question.</p> <p>No9: I disagree. It took us several years of exploration here before we finally determined our main development direction. Therefore, it is impossible to have a complete plan in advance. Additionally, short-term and long-term goals cannot be clearly separated from the outset.</p>	<p>No10: This classification is too theoretical and difficult to apply in real-world scenarios.</p> <p>No11: I don't think many people would agree with this classification, especially since it lacks clear definitions of what constitutes short-term and long-term goals. Enterprises do not think in such rigid terms. For example, when considering the advantages of overseas investment, they do not weigh the importance of reducing production costs versus trade costs separately. Instead, they focus on any opportunity to reduce costs and act accordingly.</p> <p>No12: I am unsure whether this classification helps in selecting an industrial park because we have not gone through this process ourselves.</p>

	identified our core product focus.			
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## Annex 4: Research findings contributing to the conclusions of Chapter 7

<b>Group 1: Investors and Operators of Overseas Industrial Parks</b>				
	<b>TCR</b>	<b>KITIC</b>	<b>LJIP</b>	<b>VCEP</b>
<b>G1Q11</b>	<p><b>Aside from the impact of the existing industrial parks mentioned in G1Q7,</b></p> <p><b>what other challenges do overseas industrial parks face in attracting enterprises?</b></p>			
	<p>No1: Considered this issue but has not yet found an answer. Financial pressure might be a major factor.</p> <p>No2: We don't see the challenges. I am optimistic. (1) The park can continue leveraging the advantages of the existing park to provide better infrastructure and services, attracting more enterprises. (2) We come from Zhejiang province, China. And many Zhejiang-based enterprises have overseas investment needs. Long before the park's completion, these enterprises and we had already established cooperation agreements.</p> <p>No3: Choosing an industrial park is a difficult decision for enterprises, as they need to consider many factors. We cannot help in this field. What</p>	<p>No4: (1) Enterprise hesitation is an issue. Many Chinese enterprises lack overseas investment experience, clear plans, and selection criteria, making them indecisive. Some enterprises contacted several China's overseas industrial parks in Southeast Asia but ultimately made no decision. (2) Additionally, China's industrial parks in Southeast Asia offer similar incentives, such as tax exemptions and foreign investment benefits. This makes enterprises' decision-making more difficult, as enterprises struggle to evaluate the real advantages and challenges of investing in a specific location.</p> <p>No5: The biggest challenge comes from the existing park's influence. What we can do is to focus efforts on overcoming this issue. The strategy has shifted</p>	<p>No6: No significant issues. With over 20 years business experience in Vietnam, we are highly familiar with the local environment. Moreover, many enterprises intended to enter our enterprises had contacted us in advance, particularly Zhejiang-based enterprises.</p> <p>No7: Since China's industrial parks in Southeast Asia generally offer similar incentives, enterprises find it difficult to choose. Some of them hesitated too long, missing the best investment opportunities or strategy shifts due to international market changes.</p> <p>No8: (1) Insufficient promotion in China may be a factor, so efforts are being made to increase online population of our park. (2) Another issue is that some enterprises seek</p>	<p>No9: The investor and operator of our park is a public enterprise from China. We have confidence in our credibility and influence. The real issue may lie in those enterprises lacking clear investment criteria.</p> <p>No10: I'm not sure about this. Maybe two challenges. (1) Each enterprise will present many demands, which cannot all be met at same. Some requests seem unnecessary, and many enterprises lack well-defined, specific needs, making it unclear what services should be prioritized. (2) Another factor may be the park's limited experience, as it has been in operation for less than ten years. Over time, a more mature business and operational model is expected to emerge, improving the ability to attract enterprises.</p>

	<p>we can do best is to strengthen cooperation with the existing park and improve infrastructure and services to meet investment needs.</p>	<p>from exclusively attracting Chinese enterprises to inviting international corporations that align with the industrial structure of the existing park. This enhances the park's scale and promotes collaboration on larger projects.</p>	<p>highly customized infrastructure and services tailored to their production needs. However, the park's construction already took high costs, leaving insufficient funds to meet these specific demands, leading enterprises to choose other industrial parks.</p>	<p>No11: Financial pressure is significant. Chinese financial institutions often refuse loans due to the high risks of overseas investments, while host-country banks are cautious about lending to Chinese investors.</p>
<p><b>G1Q15</b></p>	<p><b>How does your industrial park generate revenue? Is it sustainable?</b></p>			
	<p>No1: (1) Sustainable profitability has not yet been achieved. (2) The main revenue sources include land sales or leases, factory and equipment rentals, and service fees for handling administrative procedures for enterprises investing overseas. Now we are actively exploring new service offerings. (3) We have concluded a phased investment model during construction, which helps to save costs. It mainly refers to that rather than building all the infrastructure at once (which would be too costly), we develop the park step by step. Especially after the first step of construction, we started to attract enterprises to generate revenue. Then reinvests revenue into further expansion. This method requires careful planning but allows for orderly</p>	<p>No4: Still in the exploration phase.</p> <p>No5: Sustainable profitability has not yet been achieved. Current revenue mainly comes from land sales or leases, factory rentals, and property management fees. Additionally, with support from BRI, we are also seeking loans from institutions such as the Asian Infrastructure Investment Bank (AIIB) and commercial banks.</p>	<p>No6: A sustainable profitability model has not yet been established. But there are some positive points. (1) The number of enterprises in our industrial park now has reached two-thirds of the planned goal. It means that we already have some investment returns, reducing our financial pressure. (2) Our certification as OETCZ has improved credibility, making it easier to have financial services from the domestic financial institute in China.</p> <p>No7: My colleague can better explain.</p> <p>No8: The main revenue sources are land income and factory rentals.</p>	<p>No9: Sustainable profitability has not yet been achieved. In our long-term plan, we will achieve this in the next development phase. This is inspired by the domestic experience of industrial park: once industrial clustering is achieved, the park can generate profits by developing residential and commercial zones.</p> <p>No10: Land revenue is critical. But a downside of this is that some industrial park investors mistakenly see land sales as a primary revenue source rather than the revenue from business operation. As a result, after taking land revenue, they may cut back on essential services instead of expanding them, to save the costs.</p> <p>No11: Sustainable profitability</p>

	<p>development.</p> <p>No2: No specific insights provided.</p> <p>No3: My colleague is more suited to answer this question.</p>			<p>needs time to be achieved. (1)</p> <p>Although this is important, sustainable profitability is secondary to our role in supporting Shenzhen's industrial upgrading (also including assisting overseas investments from Shenzhen). Because we are a public enterprise from Shenzhen. (2) Another important goal is to explore and conclude the experience as an overseas industrial park investor. As in the future, we plan to build more overseas industrial parks. This is more important than profits gaining.</p>
<b>G1Q16</b>	<b>What are the most effective ways to promote sustainable profitability in overseas industrial parks?</b>			
	<p>No1: Sustainable profitability should be achieved by expanding customized commercial services. Efforts have already been made in this park, including collaboration with both Chinese and Thai banks to provide services tailored to enterprises.</p> <p>No2: It is too early to discuss sustainable profitability. In my view, achieving an industrial clustering effect is a prerequisite for long-term profitability. (1) The ideal scenario is an industry-</p>	<p>No4: Instead of focusing too much on long-term goals such as sustainable profitability, the immediate priority should be addressing current challenges— attracting more enterprises to the industrial park and meeting their existing needs.</p> <p>No5: Steps can be taken to promote sustainable profitability. (1) Engaging with local governments to implement the cooperation MOU of supporting overseas industrial park between central</p>	<p>No6: No more comments. As long as current growth continues in this park, sustainable profitability will be achieved (but the respondent did not provide detailed evidence).</p> <p>No7: (1) Providing more targeted services and infrastructure based on enterprise needs. (2) Waiting for industrial clustering. Once Chinese enterprises in the park achieve steady growth, the surrounding land will become</p>	<p>No9: As previously mentioned, profitability will depend on achieving population clustering in the surrounding areas.</p> <p>No10: Can be inspired by the experience of domestic industrial park in China, where the park drives industrial growth and promotes urban modernization. Profits can then be generated from commercial and residential development.</p> <p>No11: The focus should remain on enterprises, specifically, on</p>

	<p>specific cluster, such as the Samsung Industrial Park in Vietnam, where all enterprises operate within Samsung's supply chain. (2) If industry-specific clustering is not possible, geographical clustering of enterprises still provides benefits, allowing them to cooperate in areas such as workforce training programs to develop skilled labor.</p> <p>No3: Profitability can be achieved by offering more services to enterprises. A positive development is that some clustering effects have already emerged, particularly in motorcycle and automotive parts manufacturing. As industrial clustering increases, demand for additional services will grow.</p>	<p>government from both sides. (2) Attracting large multinational enterprises that require extensive services, then we can generate revenue by providing these. (3) In the long term, the second development phase of the industrial park can generate profit through urban development, similar to domestic industrial parks that profit from residential and commercial projects.</p>	<p>more valuable, creating additional revenue opportunities.</p> <p>No8: The macroeconomic environment must be considered. (1) China and host countries must improve financial services for overseas investment, as industrial parks and Chinese enterprises alone cannot resolve financial constraints. (2) A positive factor is that Vietnam has a stable economy and follows a socialist system, which allows for more predictable long-term planning for us who also applied socialist system. By contrast, in politically unstable developing countries, achieving sustainable profitability would be nearly impossible, as everything is unpredictable.</p>	<p>their needs. They are both the primary service recipients and the main revenue source for us. Sustainable profitability is only possible if enterprises achieve long-term stability. Ideally, the park should become an indispensable platform for China's overseas investment by the following. (1) Actively fostering industry clustering by selecting enterprises with strong collaborative potential. (2) Providing customized services, such as identifying local business partners for enterprises.</p>
<b>G1Q17</b>	<b>As an operator of an overseas industrial park, how do you perceive your role in promoting sustainable profitability?</b>			
	<p>No1: The strategy has always been to achieve profitability by offering customized services to enterprises. Many coordination and communication tasks cannot be handled effectively by enterprises themselves, making operator support essential. Revenue can be generated by</p>	<p>No4: No concrete answers yet. However, the key to sustainable profitability lies in the successful development of enterprises within the park. The operator must do everything possible to ensure enterprises can operate smoothly. Only when enterprises thrive can they</p>	<p>No6: No direct correlation. The primary responsibility of an operator is to ensure stable and orderly enterprise operations. The operator should use the industrial park as a platform to integrate and coordinate resources, including human capital, policies, government</p>	<p>No9: (1) Revenue can be generated through expanded commercial services, such as addressing enterprises' financing challenges. The priority should be improving financial services. (2) The biggest role of an operator is identifying enterprises' real</p>

	<p>providing these services.</p> <p>No2: As an operator, we are still exploring and have no definitive answers to you.</p> <p>No3: The operator's ability determines whether high-quality, high-value services can be offered. Only by fully understanding enterprise needs and providing corresponding solutions can an industrial park generate substantial revenue. This is the operator's most important role.</p>	<p>generate more revenue opportunities for the park.</p> <p>No5: Operators must actively promote industry clustering. As mentioned before, the second development phase of the park aims to generate revenue from urban development, which requires clustering both industries and people. Operators play a crucial role in this process. For example, the operator can have a clearly defined the leading industry of the park and allowing only the enterprises in this industry to enter in the park, eventually speed up the industrial clustering.</p>	<p>relations, and public relations. Once enterprises achieve growth, the park will naturally have many revenue-generating opportunities.</p> <p>No7: Three key tasks for industrial park operators have already been mentioned above. Furthermore, a particularly important role is serving as a bridge between local governments and enterprises. Operators should communicate the most pressing enterprise needs to local governments to ensure they understand the actual requirements of Chinese enterprises. Similarly, operators should help enterprises interpret local policies and regulations from a Chinese business perspective.</p> <p>No8: Operators are crucial for ensuring sustainable profitability. There are differences among overseas industrial park operators. For example, public enterprises, as investors and operators, have abundant funding and strong policy support, while private enterprise operators tend to be</p>	<p>needs. Sometimes enterprises themselves cannot clearly express what they really require. Operators, by analyzing the local business environment from an outsider's perspective, can offer high-value, customized services.</p> <p>No10: The focus should remain on immediate challenges. To my understanding, industrial park development should not depend solely on operators. Leading enterprises within the park should play a coordinating role among businesses. Operators should support the strongest enterprises, enabling them to drive industry clustering. In another words, operator should also play as an incubator for leading enterprises.</p> <p>No11: Whether through expanding services or fostering industry clustering, operators play a vital role in achieving these objectives.</p>
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			more service-oriented and market-driven. These two types of operators should have their own sustainable profitability plan according to their characteristic.	
<b>G1Q18</b>	<b>Are you familiar with the sustainable profitability models of domestic industrial parks in China?</b>			
	<b>Are there any aspects that can be adopted overseas?</b>			
	<p>No1: Limited relevance to domestic models and their experience.</p> <p>No2: Domestic industrial parks are valuable learning references. We are making efforts to integrate domestic experience with overseas realities, but further analysis is required.</p> <p>No3: Some domestic experiences in China were helpful in the initial phase of our park. But the operation experiences can be used here, as the operating environment abroad is significantly different. In this case, we actually have learned a lot from AMATA, the investor and operator of the existing park. Their experience seems more helpful.</p>	<p>No4: The situation is completely different from domestic industrial parks in China. We cannot use the experience directly. Maybe it is because we have an incomplete understanding of China's industrial parks. We are considering now to have deep research on the experience from China.</p> <p>No5: (1) Most domestic experiences are difficult to replicate overseas. For example, industrial park operators in China often serve as local administrative authorities, allowing them to collect local tax revenues while also covering all public expenses. This revenue model is impossible abroad. (2) One applicable lesson is how China's industrial parks use industrial development to drive urban expansion. Profits can be</p>	<p>No6: The concept of industrial parks as resource aggregation platforms is a key takeaway from China. Domestic parks have demonstrated exceptional efficiency in resource integration and mobilization.</p> <p>No7: Domestic experiences in China are not transferable.</p> <p>No8: A comprehensive and detailed comparison with domestic parks is needed to determine which experiences are applicable. We need time to figure this out.</p>	<p>No9: A key insight from domestic industrial parks is that once industry and population clustering are achieved, profitability can be realized through urban development projects.</p> <p>No10: Already mentioned in previous discussions.</p> <p>No11: The main lesson from China is to establish or identify a dominant industry for the park and concentrate resources on developing it, ultimately achieving industry clustering.</p>

		generated by developing residential and commercial districts alongside industrial growth.		
<b>Group 2: Enterprises Managers within Overseas Industrial Park</b>				
	<b>TCR</b>	<b>VCEP</b>	<b>LJIP</b>	<b>VCEP</b>
<b>G2Q7</b>	<b>Do you pay attention to the sustainable profitability of the industrial park? Will it be beneficial to you?</b>			
	<p>No1: I have never considered this issue.</p> <p>No2: We pay close attention to industrial park's overall planning and development, not only their sustainable profitability. A mutual understanding between the operator and us is a key to sustainable profitability. This helps ensure that the industrial park meets our needs, and we better align strategy with the park's long-term development plans.</p> <p>No3: No information on this. But the industrial park's continuous expansion suggests it has a sustainable revenue model.</p> <p>No4: No comment.</p> <p>No5: We do not consider this, as it is not an immediate priority.</p>	<p>No6: It's difficult for overseas Industrial parks to do that, likely need a long time to achieve sustainability. We, of course, hope the park will succeed in sustainable profitability, as this would lead to better services and more favorable policy incentives.</p> <p>No7: (1) It's not right that we pay attention to the industrial park's sustainable development. Instead, the park focuses on understanding and fulfilling our needs. Because our better development contributes to their sustainable profitability. (2) Additionally, the operator is a public enterprise form China, should have no financial issue.</p> <p>No8: There are more urgent matters to address in our enterprises. We don't have time to care about it, as I think this is irrelevant to the us.</p>	<p>No9: I have never considered this issue.</p> <p>No10: We care about this issue, as financial difficulties might affect service quality. If the park struggles financially, we may need to seek alternative service providers from the local enterprises.</p> <p>No11: According to my knowledge, sustainable profitability is a significant challenge for industrial parks. Our biggest concern is that funding shortages may lead to reduced service offers. Another risk is that some industrial park investors, after profiting from land sales, may provide only basic services to save their costs, as they don't believe customized services can bring them huge profits or they can provide these services.</p>	<p>No12: I have limited information on the financial status of industrial parks.</p> <p>No13: Not now, but we will strengthen communication actively with park operator, as their financial stability affects operational strategies, which will have a great influence on us. In this way, we can get ready in advance.</p> <p>No14: We only focus on workforce training and production line setup now. And we are satisfied with the current service quality and hope the statue will be maintained.</p> <p>No15: I don't know about the financial status of industrial parks. But I agree with the idea that sustainable profitability is linked to service quality. Without sustainable revenue, parks may struggle to provide customized</p>

				services to us.
<b>G2Q8</b>	<b>From an enterprise's perspective, what are the key characteristics of sustainable profitability in China's overseas industrial parks?</b>			
No1: Too complex to comment on.	No6: We have not yet achieved sustainable profitability, and we expect this will take 5-8 years.	No9: No comment.	No12: No comment.	No13: Profitability is not an urgent issue for VCEP. I don't feel that they have pressure on this currently. The major reason lies in the operator is a public enterprise from Shenzhen, China. Their primary mission is to serve the overseas investments of the local enterprises in Shenzhen.
No2: The profits model is still immature. The main revenue sources are land sales and standard factory leasing. Although we pay service fees for infrastructure use, these revenues are relatively small.	The investments in the industrial park are much more than us. So, they will take more time.	No10: Sustainability could be achieved through two methods: (1) Strengthening government relations to better implementation of the preference policies. In this way, we can generate more revenue by providing better service. (2) Increasing cooperation among the enterprises within the industrial park. This can enhance operational efficiency and reduce service costs. For example, some problem that originally needed to be solved by the industrial park can be resolved through enterprise cooperation now.	No14: No comment.	No15: (1) The park should generate revenue by providing more customized services. (2) The investor of the overseas industrial park can also generate profits domestically in China, for example, they can offer consultancy services to Chinese firms planning overseas investments.
No3: We have observed that the park is expanding its service offers. This is the right direction, as it's a key for achieving sustainable profitability.	No7: I have no idea, as I have not seen a clear profit model of the industrial park current. Maybe this industrial park will apply the domestic method: eventually profit from real estate development after achieving a clustering in industry and residents.	No11: Too early to conclude—further observation is needed.		
No4: No comment.	No8: No comment.			
No5: I suggest that industrial parks should achieve sustainability by offering more commercial services.				
<b>G2Q9</b>	<b>From an enterprise's perspective, what challenges do China's overseas industrial parks face in achieving sustainable profitability?</b>			
No1: There are too many enterprises in the industrial park, each with its own needs, making it difficult for the park to cater to all of them individually.	No6: (1) I haven't noticed any major issues with the industrial park. It seems to be developing well, and the second phase of construction is about to begin. (2) If there is a challenge, it	No9: I haven't paid attention to this.	No12: I haven't noticed any major issues. As long as development continues, the industrial park should eventually become profitable.	No10: The biggest challenge might be the lack of a clear and detailed plan. One major reason

	<p>No2: There is a lack of experience in building and operating overseas industrial parks. Additionally, there is no sufficiently mature and sustainable profit model. Currently, achieving sustainable profitability through commercial services remains a challenge.</p> <p>No3: The biggest challenge is whether the industrial park can provide services that meet the needs of enterprises.</p> <p>No4: No comment.</p> <p>No5: I don't think the industrial park is facing any significant difficulties.</p>	<p>might be related to funding, as investing in an overseas industrial park requires significant capital. But I don't think this is their biggest challenge, since they are a public enterprise and have received the OETCZ certification, which should make it relatively easier for them to secure loans and funding.</p> <p>No7: We need more time to observe. At the moment, no significant challenges are apparent.</p> <p>No8: Currently, the industrial park seems to lack strong core competitiveness. Compared to other overseas industrial parks, it does not appear to have any particularly distinctive competitive advantages. Hopefully, as time goes on, the park will develop and provide more targeted services for enterprises like ours.</p>	<p>is that after BRI was introduced, some overseas industrial park investors engaged in overly aggressive investments. Without sufficient planning, they rushed into overseas industrial park projects, leading to challenges in achieving sustainable profitability. But I can understand this situation because overseas industrial park investment is also a race against time—first come, first served. For example, once LJIP near Ho Chi Minh City was established, no other investors would choose to invest in the same area. That's why another overseas industrial park in Vietnam opted to develop in the northern region.</p> <p>No11: I think the biggest challenge is financial pressure. We are already facing funding challenges, and the investment cost for an overseas industrial park is significantly higher than ours. Their financial burden must be substantial.</p>	<p>No13: There is an issue with industrial planning. In China, some industrial parks strictly screen incoming enterprises, allowing only those with industrial synergy to enter. This approach helps accelerate industry clustering. However, overseas industrial parks often lack a clear leading industry, allowing enterprises from various sectors to enter. As a result, during the operational phase, the park struggles to provide customized, industry-specific, and systematic services. In contrast, some single-industry overseas parks, such as agricultural or mining industrial parks, can offer a more structured and specialized range of services tailored to a single sector.</p> <p>No14: No comment.</p> <p>No15: The industrial park can only generate more revenue if enough enterprises move in. But since multiple China's overseas industrial parks in Southeast Asia offer similar conditions, it is difficult for any single park to stand out and attract enterprises</p>
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				in a significant way.
<b>G2Q10</b>	<b>How would you evaluate the role of industrial park operators in achieving sustainable profitability?</b>			
	<p>No1: (1) The operators should strive for more policy incentives or act as intermediaries to improve communication with local governments. We enterprises feel communication with them is exhausting and stressful, mainly because of the language, culture and system differences. If the operators can handle this, we are willing to pay for the service. In this way, we can avoid the misunderstanding with the government. (2) There are local media outlets that sometimes publish negative opinions about China and Chinese enterprises for their own reasons, leading to hostility from local society. We also need operators to improve public relations here.</p> <p>No2: The role of operators is crucial. The two main aspects they should focus on are: (1) Better understanding the enterprise needs to provide more targeted services for profitability, and (2) Coordinating enterprises within the park to facilitate</p>	<p>No6: They are very important.</p> <p>No7: China's overseas industrial parks will focus on services provision. This is different from the parks in China. In China, industrial parks and administrative districts overlap.</p> <p>No8: I do not see a direct link between park operators and sustainable profitability. The main role of operators is to help enterprises smoothly complete their overseas investments. Once enterprises grow, they will naturally require additional services, such as worker accommodations, creating profit opportunities for the industrial park. Thus, the connection between operators and profitability is indirect.</p>	<p>No9: Operators are indispensable. We expect them to gain more policy incentives and provide additional services.</p> <p>No10: As I mentioned previous, the need for operators to strengthen communication with local governments and attract more businesses to the park.</p> <p>No11: (1) An overseas industrial park functions as a small society, requiring public management and services that enterprises are not responsible for. These public services must be handled by the operators. (2) Operators play a crucial role in communication with local governments and communities. We lack the expertise and resources for such negotiations.</p>	<p>No12: Operators are important, but not the only factor. Both enterprises and operators contribute to the park's sustainable profitability. Operators should focus on coordination and service provision, while enterprises need to focus on development and create demand for more services.</p> <p>No13: (1) Operators need to innovate and improve commercial services, such as machinery maintenance and professional logistics support. (2) We also need them to strengthen communication with local governments and communities, which is critical for us. And we are willing to pay for these services.</p> <p>No14: The relation between us and the operator is similar to the relation between seller and buyer. The better services they can provide, we will pay more.</p> <p>No15: The profitability strategies of the park mentioned earlier all</p>



<p>issue is that some parks develop industries that exceed the host country's needs and capabilities. Due to a lack of labor force, supply chains, markets, and supporting service industries, these parks struggle to attract enterprises. (3) The development of overseas industrial parks should be progressive. However, some parks are constructed at high standards from the very beginning, leading to excessive infrastructure investment. Later, revenues fail to cover these costs, causing financial difficulties.</p> <p>No3: The biggest challenge is still funding shortages. Without enough funding, industrial parks cannot provide high-quality infrastructure and services, which in turn limits their revenue potential. Worse still, the initial investment in overseas industrial parks is often massive, leading investors to pursue quick, one-time profits (especially through land leasing or sales). As a result, enterprises within the park come from varied industries, causing disorganized layouts and unclear industrial focus, which prevents industrial clustering. This issue needs urgent resolution. One potential solution is to rank the creditworthiness of overseas industrial parks that have received certification from the Chinese Ministry of Commerce and the Ministry of Finance (i.e., OETCZ). This ranking system would help these industrial parks obtain loans more easily.</p> <p>No4: The issues lie in the location and planning of the parks. The biggest problem is limited revenue sources. Currently, revenue mainly comes from land leasing and sales, as well as factory and dormitory rentals. This extensive revenue model is insufficient to recover the enormous infrastructure investment. Instead, overseas industrial parks can learn from domestic parks, which promote industrial clustering, leading to population concentration and urbanization. Then, industrial parks can benefit by developing urban functional zones, residential areas, and commercial districts.</p> <p>No5: Industrial park investors have misconceptions about the nature</p>	<p>the enterprises that want to invest within the industrial park. By co-investing in the park, they can obtain policy incentives from both the Chinese and host country governments, reducing their total investment costs. And they can also get profits from the operation of the industrial park. But notably, these investors' primary goal is to establish overseas factories, industrial park profitability is not their top priority.</p> <p>No8: (1) The Suzhou Industrial Park model can be a reference. SIP was jointly developed and managed by Singaporean and Chinese enterprises. Similarly, overseas industrial parks can be co-developed and co-operated with local governments. Even if they are not profitable, this can significantly reduce operational costs. (2) Government support is needed to expand financing options. Policymakers should leverage international financial institutions such as the Asian Infrastructure Investment Bank (AIIB), BRICS New Development Bank, Silk Road Fund, and China-Africa Development Fund to finance overseas industrial parks in BRI countries. Additionally, domestic financial institutions should expand overseas operations to provide localized financial services and investment support.</p> <p>No9: There are issues with industrial planning, especially location selection. Some site selection practices contradict market principles, making long-term park development difficult, let alone achieving sustainable profitability. The main reasons for poor location choices include: (1) Some parks prioritize diplomatic and political factors over development costs and industrial profitability. (2) Some parks are built in areas designated by the host country government for future industrial development. However, due to various unforeseen factors, these areas fail to develop as planned, resulting in poor investment attraction for the industrial park. (3) Some parks focus solely on internal infrastructure while neglecting external infrastructure, such as water, electricity, and transportation for production needs.</p>
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	<p>of their projects. (1) Mistaking overseas industrial park development for a construction project. Developers do not prioritize long-term operations and management. They fail to recognize the principles of "operations first," "investment and construction serving operations," and "industry-driven development." (2) Viewing overseas industrial parks as short-term investments for quick returns. Some developers see industrial park projects as one-off deals and hope to cash out quickly through land investment. They forget the S-curve pattern of profitability, where land investment benefits maximize only with long-term park management and operations. (3) Overly ambitious early-stage planning. Some developers believe that the larger the land area, the better. However, early-stage development faces numerous challenges. On average, it takes 3-5 years to develop just 1 square kilometer of an industrial park. But some investors even planed more than 10 square kilometers of the park, which are unrealistic.</p>	<p>No10: Chinese government support needs improvement. It is not necessarily about increasing support strength but rather about improving coordination mechanisms among the government departments. The success of domestic industrial parks lies in their high-level, centralized coordination systems tailored to different development stages and park types. However, current Chinese government support for overseas industrial parks is fragmented, lacking coordination between different departments. This problem is evident in two areas: (1) Fragmented administrative responsibilities. Various government bodies manage different aspects of overseas economic activities, making it difficult for industrial park investors to receive consistent guidance. Investors must coordinate with multiple agencies such as the Ministry of Foreign Affairs, NDRC, Ministry of Commerce, China Development Bank, Export-Import Bank of China, and State Administration of Foreign Exchange. (2) Lack of a dedicated communication mechanism between China and host country governments. As a result, information asymmetry and delayed communication slow down project implementation and increase hidden costs.</p> <p>No11: Government support is insufficient. China needs to enhance financial services for overseas industrial park investors. Host country government support is also critical, but the issue is not totally due to a lack of commitment. Instead, many host country governments want to support, but they lack experience in supporting industrial park development. For example, some countries do not have dedicated policies or legal frameworks for industrial parks. As a result, they apply generic business regulations to industrial parks, which may be inappropriate. Additionally, when conflicts arise between industrial parks, local communities, and workers, host governments often struggle to mediate effectively.</p>
<b>G4Q5</b>	<b>What role do operators play in achieving sustainable profitability of overseas industrial parks?</b>	
	<p>No1: (1) The primary task of industrial park operators is to define objectives. Operators need to clarify the purpose of investing in</p>	<p>No6: Operators bear multiple responsibilities beyond providing infrastructure and services. They must also explore and refine</p>

<p>overseas industrial parks, because not all investors prioritize sustainable profitability—at least not in the short term. For example, some investors are public enterprises from Chinese cities, and their primary goal is to support and service the overseas expansion of local enterprises from these cities. Their revenue expectation is simply to recover costs and maintain park operations, rather than generating significant profits from the operation of overseas industrial parks. (2) Operators must have strong adaptability. They should either help the park integrate into local society quickly or develop an orderly exit strategy before challenges become insurmountable.</p> <p>No2: (1) As previously mentioned, lack of experience has led to issues in the planning and location selection of some overseas industrial parks. This makes it even more important for park operators to act as leaders and coordinators, efficiently pooling resources and fostering cooperation among enterprises. By reducing operating costs and achieving economies of scale, industrial parks can attract more enterprises. (2) And I have a suggestion for Chinese policymakers. Given the high costs and long profitability cycles of overseas industrial parks, the Chinese government should encourage public enterprises from various cities to invest in overseas industrial parks. Public enterprises have stronger financial backing compared to private enterprises.</p> <p>No3: To address the financial service gap, operators can play a key role. For example, in TCR, the operator has helped establish a comprehensive financial service system. Banks such as Bank of China Thailand, ICBC Thailand, and Thai Siam Commercial Bank have signed strategic agreements with the park. They provide financing solutions for enterprises within the park: Once an enterprise signs a land purchase contract and pays 30%-50% of the land cost, banks can finance the remaining 50%-70% of land and construction costs. These loans offer long repayment terms and lower interest rates than those available in China. Even for working capital loans and settlement</p>	<p>sustainable profitability models. Since most overseas industrial park investors lack experience, this is a necessary learning process. A successful example is TCR, where the operator has continuously refined a sustainable profitability model that has even been adopted in other overseas parks. This model follows three stages: (1) Phase One (3 Years) – Focus on completing basic infrastructure without further expansion. Emphasize cash flow management, recovering costs through land and factory sales within three years. (2) Phase Two (3-6 Years) – Shift from real estate-based revenue to diversified services. Develop an ecosystem for Chinese manufacturers abroad, transitioning from land transactions to value-added services, such as supply chain financing, co-investment, and market expansion partnerships. (3) Phase Three (6+ Years) – Offer customized, high-value services. For instance, helping large enterprises in the park apply for regional headquarters status in Bangkok, encouraging them to establish ASEAN headquarters together. This strengthens localized operations in areas such as talent management, capital flows, R&amp;D, and cross-border investments, evolving into a true multinational business network.</p> <p>No7: The operators can help industrial parks integrate into local society, which is often overlooked. While not directly related to profitability, this ensures long-term growth and helps mitigate risks. Parks should offer social services to gain local support and demonstrate corporate responsibility. A good example is Korean industrial parks in Vietnam, which built roads and bridges for local communities, earning public goodwill. Typical public services provided by industrial parks include: (1) Essential utilities (providing water and electricity to local communities). (2) Education and healthcare (building vocational training schools and hospitals, benefiting both park employees and local residents). All of these may not contribute directly to the increasing profits, but they help build trust with local governments and communities, which is essential for long-term stability.</p>
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<p>services, financial institutions within the park provide better conditions and services than domestic banks in China.</p> <p>No4: The key role of operators in achieving sustainable profitability lies in good planning and strategic location selection. Location selection is complex and has no universal standard, so I won't elaborate on that here. Instead, I'll focus on construction and operational planning. (1) During the construction phase, the goal is to avoid excessive investment costs, ensuring the park can operate long enough to achieve sustainable profitability. Some parks set overly ambitious development targets, leading to short-term funding gaps or a lack of operational capital after construction. Proper construction planning is crucial, and industrial park operators have a responsibility to set realistic development targets. Many operators now follow three standardized levels of park development, ranging from basic to advanced: "Three connections and one leveling", "Five connections and one leveling", "Seven connections and one leveling". Operators can choose the most suitable development level based on their park's specific needs. (2) During the operational phase, the focus should be on defining the park's main industry. The operator should only admit enterprises related to the dominant industry, accelerating industrial clustering. Once the park achieves economies of scale, demand for customized services will increase, creating new revenue opportunities.</p> <p>No5: Industrial park operators should act as communication bridges:</p> <p>(1) Between enterprises and the local government – The park can collect feedback from enterprises and present key concerns to local authorities to advocate for common needs. (2) Between overseas industrial parks and the Chinese government – By gathering information systematically, parks can offer valuable policy insights to Chinese policymakers, helping them refine overseas industrial park policies. Since China is experimenting with large-scale overseas industrial parks for the first time, continuous feedback and optimization are crucial for long-term success.</p>	<p>No8: In addition to partnering with local governments, operators should also collaborate with local enterprises. This helps them identify new business opportunities, expanding their revenue streams.</p> <p>No9: Currently, there are two main perspectives on profitability: (1) Revenue through commercial services – This requires operators to deeply understand enterprise needs and optimize local business conditions. (2) Revenue through urbanization – This takes longer but involves developing commercial zones, housing, and urban infrastructure around the park. Operators can achieve this directly; they have to promote industrial clustering.</p> <p>No10: The Chinese government should help overseas park operators recognize their strategic importance. By boosting their confidence and clarifying long-term goals, operators will have a clearer direction for development. Theoretically, the number and scale of the overseas investment of Chinese enterprises will continue to rise. Historical lessons from Japan and South Korea show that large-scale overseas investment requires a robust service network. In the future, China's oversea industrial parks could form an interconnected service network, supporting Chinese enterprises globally. The first step may be to integrate government-certified OETCZs, improving coordination between international and domestic resources to enhance Chinese enterprises' global expansion.</p> <p>No11: We position industrial parks as platforms, not just for Chinese enterprise clustering abroad but also for integrating domestic and overseas resources. For example, there some Chinese enterprises have already developed in Southeast Asia for more than 20 years and many overseas Chinese. Industrial park operators could collaborate with these enterprises and overseas Chinese to leverage their government ties, local expertise, and market networks. By utilizing their insights on investment regulations, land acquisition, and supply chains, Chinese</p>
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		enterprises within the industrial parks can avoid risks and accelerate growth.
<b>Group 5: Investors and Operators of Domestic Industrial Parks in China</b>		
	<b>Suzhou Industrial Park (SIP)</b>	<b>Hangzhou High-Tech Zone (HTTZ)</b>
<b>G5Q2</b>	<b>Summarize the successful experiences of sustainable profitability in domestic industrial parks in China.</b>	
	<b>Which of these experiences can be applied to overseas industrial parks?</b>	
	<p>No1: (1) At the beginning, things were not smooth because we had differences in philosophy and approach with our Singaporean partners. Some of these differences were irreconcilable, particularly regarding ideas that were not suitable for China's system. I have two examples: (a) Differences in development goals – We aimed for a four-phase large-scale development: 8km<sup>2</sup>, 15.2km<sup>2</sup>, 16.6km<sup>2</sup>, and 36.6km<sup>2</sup>. However, our Singaporean partners only agreed to the first phase (8km<sup>2</sup>) and opposed large-scale expansion. (b) Differences in management philosophy – The Singaporean partners emphasized strict public-private separation and efficient management principles, while the Chinese side valued flexibility. Chinese culture emphasizes harmonious interpersonal relationships, sometimes even bending rules slightly to maintain goodwill. These two governance philosophies are not inherently right or wrong but must align with local culture and environment. The rigid and inflexible management approach of the Singaporean team was perceived as bureaucratic and unfriendly by many Chinese officials and businesses. (2) However, their understanding of urbanization greatly inspired us. They had a long-term vision, realizing that after an industrial park develops, population clustering will create demand for urban functional zones. As a result, they incorporated this into their initial planning. In other words, their industrial park design wasn't just about enterprises—it included housing, infrastructure, and commercial zones. Years later, this top-tier living environment and infrastructure played a crucial role in attracting high-end talent. The biggest change this brought to us was that China's industrial parks now typically include urban functional zones in their planning. Additionally, this introduced a new revenue model, as industrial parks can profit from urban development projects.</p>	<p>No5: The success of industrial park development depended on three key guarantees. (1) Talent development. The park attracted 290,000 high-tech professionals, with R&amp;D personnel making up 30.8%. We encouraged the enterprises to establish academic research centers and postdoctoral research stations. We also provide priority housing and medical services for high-end talent. (2) Financial support. We set up a Technology Finance Service Center to offer one-stop financial services. We also encourage the banks to establish small-business lending units within the park. (3) Strong policy backing. The local government introduced targeted policies and regulations, and our park provided rent subsidies to support businesses.</p> <p>No6: The success of an industrial park depends on a well-structured system. (1) The core of all systems is incubating technology enterprises. We view industrial parks as large incubators, starting from innovation and growing from nothing to something, from small to large, to achieve a natural entrepreneurial process. This is our unique highlight in industry cultivation. (2) Increasing the management capability and efficiency of industrial park operators. Industrial parks are service-oriented, focusing on the pain points of enterprises. They adopt differentiated support policies and asymmetric approaches based on different industries, development stages, and functional platforms to provide precise services. Additionally, industrial parks work closely with local governments to simplify administrative approval procedures for enterprises. (3) Efficient aggregation and allocation of resources. You mentioned several characteristics of Chinese industrial parks in promoting industrial clustering, and I fully agree, especially with the point on resource aggregation. However, we</p>

	<p>No2: (1) The collaboration helped us better understand Singapore's approach to industrial park planning. The design of SIP was completed by a Singaporean company, which emphasized forward-looking and scientifically structured planning. This provided a solid foundation for future development. fully integrating residential areas, industrial zones, educational facilities, What impressed me most was their attention to detail during the planning phase, ca and entertainment centers. (2) SIP's success was heavily reliant on strong government support and high-level coordination between China and Singapore. (3) However, the Suzhou model cannot be blindly replicated. The Singaporean model has both strengths and weaknesses. For example, under Singaporean requirements, we built high-standard infrastructure and implemented strict business selection criteria. As a result, some businesses found the costs too high and chose not to enter the park. Others, which had potential for growth, were unable to qualify due to these strict selection standards. Consequently, the number of enterprises was lower than expected, and the industrial park development company suffered financial losses.</p> <p>No3: (1) Large-scale industrial park projects require strong government support. The overall governance of Suzhou Industrial Park was managed by the China-Singapore Joint Coordination Council, which met every 12-18 months to review progress, address major implementation issues, and set future development goals. This council was jointly chaired by the Deputy Prime Ministers of both countries. Because of this high-level political backing, this model is difficult to replicate elsewhere. (2) We learned three key lessons from our Singaporean partners: (a) A highly efficient and streamlined management model – After working together for some time, SIP developed a business-first, high-efficiency, and professional service-oriented approach. This was embodied in the "One-Stop Service" model, where enterprise could access all required services at a office building within the park. (b) Scientific planning – For example, the</p>	<p>do not merely gather resources; we also focus on efficient distribution. This cannot be achieved solely by industrial park operators. It requires institutional mechanisms to enable smooth collaboration among innovative entities and ensure the seamless and efficient flow of innovation elements. Industrial parks serve as a "bonding agent" for various innovative forces. While overseas industrial parks have achieved resource aggregation, they still have room for improvement in efficient allocation. (4) Establishing and improving the intellectual property protection system, which is crucial for technology innovation enterprises. We provide strong support to enterprises with intellectual property advantages. At the same time, we actively promote the establishment of an industrial intellectual property alliance within the park. We hold regular salons, seminars, and conferences each quarter, and share information through WeChat public accounts (like Facebook) to create an effective platform for sharing intellectual property insights and experiences. (5) Addressing the common challenges faced by startups: lack of space and initial funding. We help tech-based micro and small enterprises navigate their early startup phase. In particular, regarding funding, we have established a Technology Finance Service Center, bringing in 190 financial institutions, including banks, securities firms, guarantee companies, investment firms, and microloan providers. We encourage these institutions to innovate financial products and effectively address financing difficulties for tech SMEs. Additionally, the industrial park operator has invested ¥100 million to set up a guaranteed company, providing loan guarantees for promising enterprises. Moreover, we regularly organize investment salons to create face-to-face networking opportunities for entrepreneurs and venture capitalists.</p> <p>No7: The key points I want to share can be summarized into three main aspects. (1) The most critical factor behind our success is our incubation system. (a) Industrial parks recognize that attracting outstanding enterprises is not enough—they must also be incubated and nurtured. Our greatest strength lies in establishing a complete</p>
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<p>Singaporean partners repeatedly assessed the geographic location and transportation of industries. They meticulously designed road networks within the park to ensure safe and efficient connections to Shanghai. The park's layout included a central business district, residential areas, education/training zones, recreational areas, and eco-friendly green spaces. (c) Valuable insights for China's overseas industrial parks – OETCZ policy recommends limiting park sizes to 2km<sup>2</sup> and offering ready-built factory rentals. This concept originates from Suzhou Industrial Park, where the "ready-built factory" model was first introduced in a 2km<sup>2</sup> pilot zone. This model, which provided fully equipped factory spaces, allowed investors to start operations quickly and attracted widespread interest.</p> <p>No4: The co-development and co-management with Singapore provided three major advantages: (1) High-quality investment attraction strategies. (a) Focus on industry clustering – The park prioritized attracting leading enterprises in key sectors, especially Fortune 500 companies and their regional suppliers, fostering industrial agglomeration. (b) Leveraging Singapore's international network – The park effectively attracted investment from Japanese firms, thanks to Singapore's strong business reputation and investor network. (c) Encouraging domestic Chinese investment – The park actively sought investment from Chinese enterprises as well. (2) Superior infrastructure standards as core competitiveness. Unlike most China's industrial parks, which achieve at most "Five Connections and One Leveling", SIP was built to "Nine Connections and One Leveling" standards, covering roads, power, water supply, drainage, wastewater treatment, gas, telecom, heating, cable TV, and land leveling. (3) Efficient management model. The park emphasized bureaucratic efficiency, introducing "One-Stop Administration" and "Single-Window Services" to streamline processes. Since April 1994, the park has sent managers for training in Singapore, with regular joint workshops, research projects, and experience-sharing seminars.</p>	<p>incubation cycle based on the life stages of enterprise development, forming a relay-style incubation system of "entrepreneurial nursery—incubator—accelerator—industrial park." In simple terms, incubation happens in phases. Initially, we select the most promising seed enterprises and allow them to enter the industrial incubator base. The fastest-growing companies move on to the next incubation phase, and ultimately, the most successful ones are positioned at the core of the industrial park. Since startups, growth-stage companies, and mature businesses have vastly different needs, we provide tailored and differentiated support accordingly. (b) This approach has a major advantage: it helps industrial parks determine their future development direction and key industries. Even the best industrial parks often struggle to define their focus from the outset. By observing the incubation process, they can better identify and support the most promising enterprises with customized services. For example, our park has established a dedicated Technology Entrepreneurship Service Center responsible for enterprise incubation. So far, this center has incubated over 1,000 companies and nurtured 195 high-tech enterprises. I believe this method of defining leading industries through scientific observation is also applicable to overseas industrial parks, as it provides a data-driven approach to industry selection. (c) The success of our incubation efforts is evident. Today, Hangzhou High-Tech Zone has developed a complete industrial chain for network information technology, centering on independent innovation, Chinese smart manufacturing, and cybersecurity. This has led to the clustering of industries such as information software, biopharmaceuticals, and e-commerce. Many renowned enterprises, including Alibaba, H3C, Hikvision, Dahua Technology, SUPCON, Hundsun Technologies, and Qiming Medical, have all grown from scratch within the zone. (2) As a high-tech zone, we place great emphasis on building information platforms and leveraging internet and digital technology to enhance service quality. We have established platforms for policy consultation, investment and financing intermediation, management training, information exchange, talent</p>
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		<p>support, technology assistance, and entrepreneurial mentorship. Notably, we have launched specialized platforms such as the "Hangzhou Software Professional Incubator Network Management Platform," the "Entrepreneurship Center Public Innovation Service Platform," and the "Investment and Financing Service Platform." By using digital tools to improve government services for enterprises, we have introduced online interaction platforms like "Government-Enterprise Direct Line" and "High-Tech Hub," optimizing policy communication and refining information-sharing channels for entrepreneurs. Through online public service platforms and offline training sessions, we have significantly reduced startup costs and improved entrepreneurial success rates. (3) This area was once farmland, but since the establishment of the industrial park, it has undergone rapid development and has transformed into a modern urban district. It has now become the most prosperous industrial, commercial, and residential center in the region. Our infrastructure and public resource allocation are the best in this area, providing a strong foundation for further growth and innovation.</p>
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## Curriculum Vitae

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