

China's Belt and Road Initiative (BRI): Global Value Chains Need to be Built

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The Belt and Road Initiative (BRI) has brought new opportunities to countries along the route to participate in global value chains.

In recent years, many developed economies have implemented the strategies of re-industrialization and reshoring of manufacturing industries to gain an edge through technological innovation in emerging fields and remain at the higher end of global manufacturing value chains. By reconstructing value chains, these countries have striven to promote transformation and upgrading of traditional manufacturing industries and accelerate the development of emerging industries to reinvigorate the real economy.

Against such backdrop, competition between emerging economies on absorbing relocated industries and transferred capital and exploring international markets has become increasingly fierce as they vie to participate in global value chains. In this regard, the BRI will bring new opportunities to economic and trade cooperation between China and the countries in terms of facilities connectivity, unimpeded trade and financial integration.

However, value chains in countries along the route only contribute a small share of added value in global value chains due to imbalanced industrial structure, lack of infrastructure, inadequate regional integration, imperfect business environment and insufficient innovation capabilities.

Aiming to promote regional economic cooperation, the BRI is in line with needs of countries participating in global value chains and improving their competitiveness. Since China is moving toward higher end of value chains, it can help the developing BRI countries further integrate into global value chains through direct investment and trade.

Participating in global value chains can help countries along the route increase added value of local industries, while simply getting involved does not necessarily lead to gains.

Multinational companies from developed countries often occupy the high end of industrial value chains — R&D of products and brand marketing — due to their advantages in capital, technologies and management playing a leading role. However, comparative advantages of developing countries are mostly derived from cheaper labor force and various natural resources. As a result, the countries can only export primary products and resource-based products of low technological level and value added. Since multinational corporations tend to contain profit growth, technological catch-up and value chain upgrade of developing countries through various technological standards and limiting patent grants, the latter are unable to focus on R&D and innovation but rely on advanced technologies from developed countries, therefore remaining at the low end of value chains and facing risks caused by

over reliance on imported technologies.

To benefit from participation in global value chains, countries along the Belt and Road need to improve their competitiveness steadily. At present, most of them need to promote domestic economic development and improve people's livelihood by taking full advantage of China's technologies, capital and market.

Meanwhile, China also focuses on such countries to deepen international cooperation in manufacturing, striving to develop advanced manufacturing industries, promote the industries toward medium-to-high end and encourage and guide Chinese enterprises to invest in and support the establishment of local industrial systems. Therefore, China's participation in re-industrialization of these countries can help enhance their competitiveness, improve their status in terms of division of labor in global value chains, optimize the industrial structure and develop regional value chains.

In essence, the BRI can help countries along the route to participate in global value chains and upgrade local industrial value chains, in which improving capacity cooperation can diversify production and trade in the countries, and allow them to benefit from technological transfer and knowledge spillover. By absorbing transferred industries, creating profits through economies of scale, utilizing technological spillover and optimizing the allocation of production elements, the status of the countries in global value chains can be enhanced and local modern service industries will be improved. China proposes to strengthen international capacity cooperation and improve industrial upgrading in the countries for mutual benefits and win-win cooperation,. As cooperation based on the initiative sees huge room for growth, it has gained increasing support from the countries.

From a global perspective, industrial transfer can promote developing countries as destinations of offshore industries to accelerate domestic industrialization and move faster toward industrial upgrading. For long-term development, developing countries needs to edge toward the high end such as R&D, which is necessary to improving their status in global value chains.

However, the upgrade of global value chains cannot be achieved overnight, especially for least developed countries along the route. Since rushing to the high end of value chains such as R&D and brands while giving up comparative advantages may lead to ineffective results, developing countries need to pursue step-by-step development and adopt their comparative advantages to carry out international capacity cooperation and integrate into global labor division networks.

In view of this, China needs to further adapt to the trend of international industrial transfer and continuously drive participation in global value chains through technological innovation cooperation as it moves toward a higher-level and open-oriented economy. Although the strengths of Chinese-funded enterprises on technologies and management are not prominent enough across the board as the companies go global, China's role in economic globalization is shifting from a follower to a champion as the global geo-economic landscape faces changes. Many countries along the route experiencing initial or middle stages of industrialization and urbanization are in urgent need of optimizing industrial structures and developing industrial systems in line with their demand for development in the current stage.

In the initial stage of capacity cooperation, the countries can improve the share of production elements in global value chains through learning and innovation while maintaining the edge of low costs. In the medium-to-high level stage, China and countries along the route need to innovate modes of industrial cooperation, promote innovation, ensure steady operation of industrial supply chains, provide platforms for technologies and transformation of driving forces for industrial development and drive industrial restructuring in the countries to push them toward the high end of global value chains.

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