Construction of the 21st Century Maritime Silk Road: Present Situation, Opportunities, Problems and Solutions

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Abstract: The 21st Century Maritime Silk Road is an important part of China's new landscape of all-round opening-up, responding to the joint demands of both China and many countries in Southeast Asia, South Asia and Africa. This paper examines countries and regions along the 21st Century Maritime Silk Road and makes an in-depth study of their typical economic conditions, opportunities for cooperation with China, as well as related existing problems. There are opportunities in five areas for China to further cooperate with relevant countries and regions; industrial investment, infrastructure investment, resource development, overseas economic & trade zones and maritime economic development. There are also three outstanding problems; poor coordination among executive agents, insufficient financial support and lack of a sound and complete talent team. This paper offers several suggestions concerning the construction of the 21st Century Maritime Silk Road to better fit the national conditions and joint demands of China and the countries and regions involved.

Keywords: Belt and Road Initiative; the 21st Century Maritime Silk Road; infrastructure; financial support

During President Xi Jinping's state visits to Kazakhstan and Indonesia, in September and October 2013, he successively proposed the building of the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road," which

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were later combined by the Chinese government to form the Belt and Road Initiative. Since then, the Chinese government has developed a series of policies and strategies to advance the initiative including: the Silk Road Fund (2014), the Asian Infrastructure Investment Bank (AIIB, 2015), the Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road, jointly issued by multiple ministries and commissions (March, 2015); and the Vision for Maritime Cooperation Under the Belt and Road Initiative jointly issued by National Development and Reform Commission and State Oceanic Administration (June, 2017). The Belt and Road Forum for International Cooperation was held in May 2017 in Beijing, with participants from over 130 countries and more than 70 international organizations. The Forum issued the Joint Communique of the Leaders Roundtable of the Belt and Road Forum for International Cooperation, and the List of Achievements of the Belt and Road Forum for International Cooperation.

Since the proposal of the Belt and Road Initiative, most relevant countries have officially expressed their endorsement. A popular criticism against the Belt and Road Initiative is that it is the Chinese version of the Marshall Plan and that the purpose is to enhance its diplomatic clout, for which China's cooperation with other developing countries (particularly those in underdeveloped regions) is believed to be assistance at all costs.

Such a view misunderstands China's original intention for proposing the Belt and Road Initiative and exposes their lack of understanding of China's current economic development. From the mid-19th Century to the early 20th Century, a massive outbound investment fever sweep the UK—the superpower of the global economy at that time. At the peak of that fever, the UK's outbound investments accounted for 5% of its national revenue, half of its domestic savings went abroad and the proportion of its outbound investment's real return in national revenue rose from 5% to 8%. That outbound investment covered a range of sectors, public utilities (railway, highway, water & power infrastructure, telegram, etc.) in multiple countries and regions. Why did such a massive outbound investment tide take place? One important reason lies in the fact that within the UK at the time, investment opportunities were on the decline, the marginal income ratio kept dropping, the demographic dividend was shrinking, and the pace of productivity improvement was slowing. Under such circumstances, domestic capital cast their eyes over emerging economies like the USA, Australia, Canada and South America (Edelstein, 1982).

In a way, China is facing the same real challenges as those faced by the UK. Having experienced over 40 years of sustained growth, the Chinese economy has moved from the stage of rapid growth to the stage of New Normal, which features excess savings, significant pressures for industrial restructuring and a decreasing return on investments. Against this backdrop, China timely proposed the Belt and Road Initiative, which is a demonstration of its active adaptation to and management of the New Normal. Internationally, the global economy is in a slow recovery and anti-globalization sentiment is on the rise. The Belt and Road Initiative, proposed by the Chinese government, aims to inject new vigor to boot the global economy by promoting regional cooperation.

With four-years of effort, the Belt and Road Initiative has yielded fruitful results. Judging from the already generated effects, the Chinese government has made significant progress in advancing the Belt and Road Initiative and gained extensive recognition in the international community. So far, China, in collaboration with 20 countries along the Belt and Road, has built 56 economic and trade cooperation

zones. And China's centrally-administered SOEs (small and medium-sized enterprises) have taken the initiative to participate in advancing the Belt and Road Initiative mainly through infrastructure (railway, highway, telecommunication network, etc.) and energy resource cooperation, industrial investment and (industry) zone construction. So far, substantial progress and tangible results have been made in these areas. For example, China Communications Construction Company Limited (CCCC) has undertaken port construction in multiple countries, including Myanmar, Bangladesh, Malaysia, Singapore and Sri Lanka. And China's financial support to the Belt and Road Initiative is enormous. As of the end of 2016, the AIIB had provided a total of USD 1.7 billion in loans for nine projects. China has invested USD 40 billion to enable the establishment of the Silk Road Fund. Also as of the end of 2016, China's promised investment had reached USD 6 billion and had concluded RMB 982.2 billion currency swaps with 22 countries and regions along the Belt and Road (Office of the Leading Group on Advancing the Belt and Road Initiative, 2017).

This paper analyzes current development, key opportunities and existing problems facing the construction of the 21st Century Maritime Silk Road (hereinafter referred to as the Maritime Silk Road) and proposes corresponding measures to the Chinese government. So far, more than 50 countries along the Maritime Silk Road have expressed their willingness to support and participate in this cause. Those countries are in different regions at varied development levels. To ensure more focused study, the analytical framework of this paper only includes countries fulfilling the following four conditions: (1) developing country (per capita income: c. USD 8,000); (2) a country along one of the three routes covered by Vision for Maritime Cooperation under the Belt and Road Initiative; (3) country officially expressing support and willingness to join the Belt and Road Initiative; and (4) country maintaining in-depth economic and trade communications with China.

This paper includes 21 countries in four regions. Southeast Asia; Malaysia, Indonesia, Thailand, the Philippines, Vietnam, Cambodia, Laos and Myanmar. South Asia; Pakistan, Sri Lanka, Bangladesh and Maldives. The Middle East and North Africa; Egypt, Algeria, Morocco and Sudan. East Africa; Djibouti, Ethiopia, Kenya, Tanzania and Mozambique.

1. A review of common features concerning countries and regions along the Maritime Silk Road

Over the past 30 years, the US dollar-dominated international division of labor has gradually taken shape. The process of product manufacturing has gone beyond a "national economy" to merge in the "multinational corporation's global production network extensively connecting almost every corner of the world." Accordingly, production factors like resources, manpower and technology have accelerated their flow across the globe, bringing the entire world closer. Most of the countries along the Maritime Silk Road are new economies with huge economic potential. Although these countries differ in economic size, population and industrial structure, common features can still be found, including satisfactory economic growth, great economic potential, and relatively backward infrastructure.

1.1 Satisfactory economic growth

In recent years, the economic growth of countries and regions along the Maritime Silk Road has been satisfactory, which is mainly reflected in their economic growth rate and urbanization. As shown in Table 1, in 2016, all relevant countries, except Morocco, witnessed a year-on-year GDP increase which was 2.2% higher than the global average; the average increase rates of Southeast Asia, South Asia

and East Africa were all higher than 5%. Seen over a longer period (the past 5-10 years), the average annual growth rates of both Southeast Asia and East Africa were both higher than 6%, and the average growth rate of South Asia was close to 5%. By contrast, the Middle East and North Africa, however, for geopolitical and regional security reasons, failed to keep up with the other regions in economic growth, but managed to maintain their growth range at the global average level.

Urbanization differs from region to region. The overall development trend remains stable, with development speed differing slightly among regions. The Middle East and North Africa have the highest urbanization rate (≥ 50%), followed by Southeast Asia (average 43.9% in 2015). However, urbanization rates vary from country to country in South East Asia, with Malaysia topping the list (over 70%) and Cambodia at the bottom (20%). South Asia and East Africa feature lower urbanization rates (respectively 34.3% and 36.7% in 2015). In terms of development trends, in the past five years, all relevant countries and regions have maintained a steady rise in their urbanization rates. Southeast Asia has witnessed rapid growth, with its average annual urbanization rate growing by 3.4%. The figure for Thailand and Laos reached 6%. Second comes South Asia, with an average 3% rise in the urbanization rate. The Middle East, North Africa and East Africa have suffered a low rise in this regard, achieving a mere 1.7% rise over the past five years. However, this has a lot to do with the already relatively high urbanization levels in the Middle East and North Africa while local deteriorating security conditions have also hampered their speed of increasing urbanization.

1.2 Huge development potential

The second common feature shared by countries and regions along the Maritime Silk Road is their huge development potential. In fact, the economic performances of these countries and regions have partially proven their potential. As shown in Table 1, except for a few countries, most still struggle with a relatively low urbanization rate (30%-40%). Despite that, relevant countries have great advantages in population age structure and labor competence, which form a solid basis for rapid economic development in the future. In Southeast Asia, the age group of 15-59 years accounts for 66.9% of the total population on average, with the figures for Malaysia, Vietnam and Thailand respectively being 70%, 70% and 71.7%. In South Asia and Middle East & North Africa, the age group of 15-59 years respectively account for 65.1% and 64.4% of the total population. In East Africa, however, the age group of 15-59 years accounts for only 55.7% of the total population. Such a distribution has a lot to do with region-specific conditions. According to the World Health Statistics 2016 issued by WHO, the average life expectancy in East Africa was only 62 years and this figure in Tanzania was even lower, only 55 years.

Table 1 Economic and Social Indicators of Countries along the Maritime Silk Road

Region	Country	Per Capita GDP (USD, 2016)	2016 GDP growth (%)	Recent 5 Years' Average GDP Growth (%)	Recent 10 Years' Average GDP Growth (%)	2010 Urbanization Rate	2015 Urbanization Rate	proportion of Population Aged 15–59	Average Schooling Years of Population Aged at and Over 15 (2010)	Highway Density Per 100 km^2	Proportion of Population with Access to Electricity (%, 2014)	The Proportion of Engineering and Transportation Equipment Investment in Manufacturing Value Added (%, 2012)	Logistics Performance Index (1–5, 2016)	Port Facility Index (1–7, 2016)
Southeast Asia	Malaysia	9503	4.24	5.08	4.79	71.0%	75.0%	69.1%	10.44	47 (2011)	100	29.4	3.4	5.6
	Indonesia	3570	5.02	5.30	5.59	50.0%	54.0%	67.2%	7.61	26 (2011)	97	20.2	2.6	3.8

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Southeast Asia	Thailand	5908	3.23	3.41	3.19	44.0%	50.0%	71.7%	7.99	35 (2006)	100	30.5 (2011)	3.1	4.5
	The Philippines	2951	6.92	6.58	5.61	45.0%	44.0%	63.6%	8.43	67 (2003)	89	48.2	2.6	3.2
	Vietnam	2186	6.21	5.91	6.04	30.0%	34.0%	70.0%	7.15	N/A	99	16.2	2.7	3.9
	Cambodia	1270	6.88	7.15	6.58	20.0%	21.0%	64.3%	4.72	22 (2009)	56	0.13 (2000)	2.4	3.7
	Laos	2353	7.02	7.59	7.74	33.0%	39.0%	61.7%	5.02	17 (2011)	78	N/A	1.8	2.2
	Myanmar	1275	6.50	7.51	8.56	31.0%	34.0%	67.5%	4.85	6 (2011)	52	N/A	2.3	2.6
	Average	3627	5.75	6.07	6.01	40.5%	43.9%	66.9%	7.03	31	84	28.5	2.6	3.7
South Asia	Pakistan	1468	5.74	4.61	3.68	37.0%	39.0%	60.6%	5.02	33 (2011)	98	5.22 (1990)	2.7	4.1
	Sri Lanka	3835	4.38	4.61	3.68	18.0%	18.0%	66.0%	10.06	173 (2010)	92	2.1	2.2 (2014)	4.3
	Bangladesh	1359	7.11	6.45	6.24	30.0%	34.0%	66.1%	5.91	166 (2003)	62	2.26 (2011)	2.5	3.6
	Maldives	8602	4.09	4.03	5.35	40.0%	46.0%	67.9%	6.02	29 (2005)	100	N/A	2.6	N/A
	Average	3816	5.33	4.93	4.74	31.3%	34.3%	65.1%	6.75	100	88	2.1	2.6	4.0
Middle East & North Africa	Egypt	3514	4.30	3.20	4.18	43.0%	43.0%	61.2%	7.15	14 (2010)	100	3.8	3.1	4.3
	Algeria	3844	3.70	3.48	3.13	68.0%	71.0%	65.4%	6.68	5 (2010)	100	19.3 (2009)	2.6	3.0
	Morocco	2832	1.10	3.14	3.85	58.0%	60.0%	66.5%	4.96	13 (2011)	92	6.0	2.5	4.8
	Average	3397	3.03	3.27	3.72	56.3%	58.0%	64.4%	6.26	11.6	97	4.9	2.7	4.0
East Africa	Sudan	2415	4.67	3.43	4.12	33.0%	34.0%	56.5%	3.21	0.5 (2000)	45	N/A	2.2	N/A
	Djibouti	1862	9.00	4.47	4.62	77.0%	77.0%	63.3%	N/A	13 (2000)	47	N/A	2.3	N/A
	Ethiopia	707	7.56	9.49	10.22	17.0%	19.0%	55.6%	N/A	4 (2007)	27	6.0	2.1	3.2
	Kenya	1455	5.85	5.47	5.23	24.0%	26.0%	55.5%	6.14	28 (2011)	36	2.6	3.2	4.2
	Tanzania	879	6.96	6.45	6.67	28.0%	32.0%	51.6%	5.81	3.8 (2009)	15	N/A	2.8	3.4
	Mozambique	382	3.85	6.66	6.70	31.0%	32.0%	51.5%	1.93	9 (2011)	21	N/A	2.2	3.6
	Average	1283	6.32	6.00	6.26	35.0%	36.7%	55.7%	4.27	9.7	31	4.3	2.5	3.6

Notes: Some figures in the table are followed with a bracket, inside which is the year of the latest figure retrievable; N/A indicates no relevant figure available.

Data source: The World Bank database, Ministry of Commerce of the PRC, National Bureau of Statistics, State Administration of Foreign Exchange 2015 Statistical Bulletin of China's Outward Foreign Direct Investment, Barro–Lee Education Attainment Dataset.

In terms of labor competence, Southeast Asia and South Asia are at the leading level, with their average schooling years for 15-year-olds and above respectively reaching 7.03 years and 6.75 years. This means that the laboring populations in these countries have completed most of their secondary education which is conducive for them to undertake more mid-range and low-end labor-intensive industries transferred from elsewhere. There is still a lot to improve when it comes to labor competence in the Middle East, North Africa and East Africa. The average schooling years for 15-year-olds and above in Middle East and North Africa was only 6.26 years. The figure for East Africa was even lower at 4.27 years. This can hinder the economic development of relevant countries. Moreover, it also indicates that China's future cooperation with relevant countries requires local talent training and competence improvement, as well as more human & material investments in education. In addition to labor force advantages, some countries also enjoy prominent advantages in natural resources which will be discussed later.

1.3 Relatively poor infrastructure

The third common feature shared by countries and regions along the Maritime Silk Road is their poor infrastructure, which is clearly demonstrated in Table 1. In terms of highway density per 100km^2, South Asia ranks number one, followed by Southeast Asia. By contrast, the Middle East & North Africa and East Africa lag behind. Regarding the percentage of population with access to electricity, East Africa (32%) is at the bottom. The proportion of engineering and transportation equipment in manufacturing value added can reflect a country's input of resources in developing logistics. In this regard, Southeast Asia still has substantial room to improve its logistics. Yet, significant development imbalance exists within this region. The average proportions of South Asia, the Middle East & North Africa are all very low, which indicates a major challenge facing countries in these regions in future infrastructure construction.

This is consistent with what is reflected by their logistics performance indexes (LPI) and port facility indexes. The average logistics indexes of the four regions are around 2.6.① Egypt and Malaysia perform best, ranking among the top players in Africa and Asia with LPIs of 3.8 and 3.4 respectively. The port facility indexes are basically in line with the logistics performance indexes. The two indexes are directly related to local infrastructure levels, which further exposes the poor infrastructures of these regions.

2. Five opportunities concerning Maritime Silk Road construction

2.1 Outbound industrial investment

Countries along the Maritime Silk Road feature a diversity of industries and have advantages in agriculture, manufacturing, tourism, garment & textile, etc. This means many opportunities for China's outbound investments. Take the ASEAN countries for example. In recent years, Malaysia, through continuous upgrading of its industrial structure, has formed a new economic structure with manufacturing, services and tourism being the three pillar industries. At present, well-known Chinese IT giants such as Xiaomi and Huawei are swarming to Malaysia, which is expected to significantly boost the further development of local technology and manufacturing. Thailand has been known as a major agricultural country and is now one of the top five exporters of agricultural products. China, as a country with a

① Generally speaking, the drop of 1 LPI (logistics performance index) unit means six more days spent on the import journey from port to company and three more days spent on the export journey, and also means five times time spent on cargo inspection at the Customs.

large population, has an urgent need to innovate its agricultural cultivation technology. Thus, there is a solid basis for agricultural cooperation between China and Thailand. Ever since the introduction of the Belt and Road Initiative, China and Thailand have further enhanced their cooperation in agricultural trading. Their good cooperation can help increase China's agricultural technology and grain yields and at the same time lift Thailand's economy to a new development stage.

On the South Asian Subcontinent, Bangladesh has witnessed the most impressive rapid development over the past years. Featuring a large population and cheap labor, Bangladesh has a great potential to develop labor-intensive industries. With the rapid increase of China's labor costs, its low value-added industries like garments & textiles are faced with huge pressures for survival and therefore require immediate transformation. Low value-added labor-intensive industries are expected to be transferred from China to Bangladesh, which means an opportunity for win-win development of the two countries. Such an industrial transfer can promote China's domestic industrial upgrading and help Bangladesh to increase jobs and boost its economy. Benefiting from the advancement of the Belt and Road Initiative, Bangladesh's tourism has started to thrive, paving the way for it to raise its national profile in a new global landscape.

China also enjoys great prospects for industrial cooperation with Pakistan, Sri Lanka and other countries. Prior to the introduction of the Belt and Road Initiative, the construction of the China-Pakistan Economic Corridor (CPEC) had been placed on the agenda. In 2013, China Overseas Ports Holding Co., Ltd. acquired the development & operation rights of Gwadar Port, Pakistan. Located at the intersection of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, Gwadar Port, under the management of the Chinese side, is gradually developing into an important port along the Maritime Silk Road and has injected new vigor into the economy of Pakistan. Thanks to China's all-round development of the greater Gwadar Port region, significant improvements have been made in residents' employment, education and healthcare. Sri Lanka is a country whose economy primarily relies on plantation and agriculture. Being among the first countries to endorse China's Belt and Road Initiative, Sri Lanka has established a positive partnership with China. In 2014, China Harbour Engineering Company Ltd. (CHEC) invested USD 1.4 billion in the construction of the "Colombo Port City" project, which is by far the largest foreign invested-project in Sri Lanka. Port construction is the foundation of foreign trade and upon completion "Colombo Port City" is expected to attract USD 20 billion in foreign investments in 15 years.

2.2 Infrastructure construction

According to the Global Competitiveness Report 2015-2016, issued by the World Economic Forum, the exponential moving average of global infrastructure competitiveness was 4.02. Of the countries along the Belt and Road, only 29 countries, accounting for not more than half, reached this figure. According to the study conducted by the Development Research Center of the State Council (DRC), the infrastructure investment needed by countries along the Belt and Road from 2016 to 2020 is estimated to exceed USD 10.6 trillion. The infrastructure construction of these countries is tormented by challenges including lagging technology, low coverage, low efficiency, poor capital implementation, insufficient technology and insufficient capital.

For most of the related countries, the lack of infrastructure is highlighted by poor transportation, electricity and telecommunication facilities. Vietnam still suffers from poor transportation infrastructure and the low coverage of their transport network. It only has 0.8km of railway per 100km^2

and its highway network is far from complete. Of the total 658 bridges that connect its national highway network, 173 bridges need to be rebuilt to ensure safety. The low efficiency of their road transportation is reflected by the average vehicle speed of 35km per hour (Yang, 2016). The length of Thailand railways is 4,363km of which single-track railways are 3,755km. The average speed of freight transport is 29km per hour and the average speed of passenger transport is 50km per hour (Sindaeng, 2017). Such freight and passenger transport capacities clearly cannot satisfy the need of modern development. Some countries suffer a severe lack of electricity. As shown in Table 1, the power grid coverage of Myanmar, Cambodia, Bangladesh and Laos were only 52%, 56%, 62% and 78% in 2015. The power infrastructure in the entire East Africa region is even worse, with an average power grid coverage of only 31% in 2015. Worst of all, the figure for Tanzania was only 15%.

Compared with most countries along the Maritime Silk Road which suffer severe infrastructure shortage, China enjoys obvious advantages in infrastructure construction. It is fair to say that China already has a sound and complete infrastructure system and advanced experience in building technologically challenging projects. China is a vast country with a diversity of landscapes. By tackling many truly challenging technological problems in transport facility construction, China has accumulated rich and advanced experience in infrastructure construction. For example, China now has the world's longest cross-sea bridge, the Qingdao Bay Bridge, the world's highest bridge, the Beipanjiang Bridge (Guizhou), and the world's longest cross-plateau railway, the Qinghai-Tibet Railway. In 2016 China's annual railway passenger volume reached 2.814 billion and the annual railway freight volume reached 3.332 billion tons. Its overall railway transport capacity is in stark contrast with those of other countries along the Maritime Silk Road. This means China's infrastructure construction enterprises are more capable of tackling technological difficulties in construction than their partners along the Silk Road. China is endowed with corresponding capacities and conditions to extensively cooperate with relevant countries in infrastructure construction and thereby explore brand-new models of cooperation in a bid for win-win results.

2.3 Construction for economic & trade cooperation zone at overseas

As of the end of 2016, Chinese enterprises had established 56 zones for economic & trade cooperation in 20 countries along the Belt and Road. These zones are mainly engaged in processing & manufacturing, resource utilization, agricultural industrialization, commercial logistics, technological research & development, and comprehensive development. According to the data platform of the Ministry of Commerce of the PRC, a total of 17 overseas economic & trade zones built by China in relevant countries along the Belt and Road have already been examined and approved. Of those 17 zones, ten are in countries along the Maritime Silk Road. (Table 2).

Regarding zone types, these zones are now primarily dominated by enterprises in processing & manufacturing and agricultural industrialization, and seldom include those in technological research & development or comprehensive business. For example, the Eastern Industry Zone in Ethiopia aims to develop into a comprehensive commercial & trade functional zone mainly engaged in export-oriented manufacturing and processing. Judging from the existing enterprises there, the Eastern Industry Zone still mainly covers the sectors of textile, tanning, agricultural product processing, metallurgy, building materials and electro-mechanics. Another example is the Saysettha Comprehensive Development Zone, which intends to adopt a development model of

China–Egypt Suez Economic and Trade Cooperation Zone

"industrial zone + new urban area." The overall positioning of this project is "one city & four districts," namely, Vientiane new industrial eco-town, demonstration zone jointly developed by China and Laos, industry supporting zone of Yunnan Province's bridgehead strategy, the core zone of Vientiane sub-center and a livable zone with a harmonious living environment. At present, most contracting enterprises are from the sectors of processing and building materials.

The total investments in these zones have exceeded USD 18.5 billion and the total output of these zones has exceeded USD 50 billion. The total tax contribution to host countries has exceeded USD 1.1 billion and the total jobs created locally have exceeded 180,000. Take China-Egypt Suez Economic and Trade Cooperation Zone as another example. The development of its phase I project, covering an area of 1.34km^2, has already been completed. Now, the phase I zone has 70 member enterprises, total agreed investment of close to USD 1 billion, an annual sales volume of USD 180 million and a total import-export volume of USD 290 million. In 2012 China Jushi Co., Ltd, the world's largest fiberglass producer opened a plant inside the Zone, making it the first and also the only world-class fiberglass production base in Africa. This plant helps Egypt advance industrial upgrading and increase jobs while at the same time motivates Chinese enterprises to go global, thus generating win-win results.

Table 2 Overview of China's Overseas Economic & Trade Cooperation Zones in Countries along the Maritime Silk Road

Name of cooperation zone	Name of domestic enterprise	Major industries	Category
Cambodia Sihanoukville Special Economic Zone	Taihu Cambodia International Economic Cooperation Zone Investment Co. Ltd. (Jiangsu)	Garment & textile, suitcases & leatherware, hardware & machinery, wood products, etc.	Processing and manufacturing
Thai–Chinese Rayong Industrial Zone	Holley Group	Auto parts, machinery, household appliances, etc.	Processing and manufacturing
Longjiang Industrial Park (Vietnam)	Qianjiang Investment Management Co., Ltd.		Processing and manufacturing
Haier–Ruba Economic Zone (HREZ, Pakistan)	Haier Electronics Group Co., Ltd.	Household appliances, automobile, textile, building materials, chemical engineering, etc.	Processing and manufacturing
China–Egypt Suez Economic and Trade Cooperation Zone	China–Africa TEDA Investment Co., Ltd.	Garment & textile, oil equipment, high– & low–voltage apparatus, new building materials, fine chemical engineering	
Eastern Industry Zone (Ethiopia)	Jiangsu Yongyuan Investment Co., Ltd.	Texitle, tanning, agro–product processing, metallurgy, building materials, electromechanical industry	Comprehensive
Vientiane Saysettha Comprehensive Development Zone (Laos)	Yunnan Provincial Overseas Investment Co., Ltd.	Energy and chemical engineering, agriculture & livestock product processing, electric product processing, feed processing, tobacco processing, building material technology, logistics & warehousing, etc.	Comprehensive
Zambia–China Economic & Trade Cooperation Zone	China Nonferrous Metal Mining (Group) Co., Ltd.	Nonferrous metal mining & smelting, processing, derivatives, building materials & supporting industries	Industry
Lekki Free Zone–China–Nigeria Economic & Trade Cooperation Zone	China–Africa Lekki Investment Ltd.	Manufacturing, logistics & warehousing, real estate development, etc.	Comprehensive
China–Indonesia Julong Agricultural Industry Cooperation Zone	Julong Group (Tianjin)	Oil palm planting & development, deep–processing, purchase, logistics & warehousing	Agricultural industry

Data source: Official website of the Ministry of Commerce of the PRC & relevant overseas cooperation zones

At present, overseas construction for economic & trade cooperation zone follows a model which consists of three steps. In the first step, zone builders attract, and help interested enterprises move into the zone. According to the Model Service Directory for Overseas Economic & Trade Cooperation Zones, zone builders should offer the following services to member enterprises; information consultation, operation & management, property management and emergency services. The whole admission process consists of field visits—preliminary agreement—registration & licensing—land renting/purchase—trial production. All zones should provide one-stop services. In addition, many zones also offer administrative services, which allow member enterprises to complete the admission process within a zone and thus save costs. In the second step, member enterprises, supported by preferential policies, go into operation. Member enterprises can usually enjoy multiple tax preference items. For example, the China-Indonesia Economic and Trade Cooperation Zone provides its member enterprises with six tax preference items concerning the EU generalized system of preferences (GSP), import

tariff, tax convenience, export rebate, bonded area and non-foreign exchange control. Apart from superimposed tax preferences, there is also an industry-specific system of tax preferences. An example of this can be found in the Thai-Chinese Rayong Industrial Zone, where member enterprises are classified into six levels (A1-A4 & B1-B2) and enjoy level-based tax preferences. Enterprises that fall into the A1 level (knowledge-intensive industries) and A2 level (high-tech industries) can enjoy the largest tax preferences. In the third step, finished products are sold smoothly. Again take the Eastern Industry Zone in Ethiopia as an example, which pioneered a "contract of purchase" model. More specifically, the Eastern Industry Zone has already concluded a contract of purchase with relevant authorities in Ethiopia. According to the contract, the Ethiopian government will purchase products from member enterprises inside the Zone. This means a new sales channel for its member enterprises.

Overall, satisfactory progress has been made in China's existing economic & trade cooperation zones abroad. However, the overall level of those overseas zones remains preliminary. After all, not many zones can compare with the Haier-Ruba Economic Zone (HREZ) in Pakistan in terms of brand effect and overseas markets. Therefore, regarding overseas zone construction, there is much to improve both in scope and depth. Many economic and trade zone overseas, though positioned as comprehensive industrial parks, are still at an early-development stage and mainly cover businesses such as garments & textiles, agricultural product processing and building materials. In later development stages, it is better to introduce more diversified enterprises and give full play to the scale effect formed by member enterprises. In terms of the business model, focus should be given to the introduction of financial institutions and the establishment of more convenient financing platforms. In this regard, Sihanoukville Special Economic Zone (SSEZ) in Cambodia has set a very good example. At the production stage, sector-specific tax preferences can be applied to fulfill initial zone planning and layout. At the product sales stage, member enterprises within a zone can work together to expand sales channels, such as collectively conclude a contract of purchase with local government authorities or enterprises.

2.4 Cooperation in resource development

Of the countries and regions along the Maritime Silk Road, many possess obvious advantages in natural resources. Adhering to the principle of mutual benefit, China should seize the strategic opportunity of cooperation in resource development and should take the initiative to cooperate with other countries in sustainable development and utilization of natural resources. In terms of mineral reserves, several Asian countries are high on the list. Indonesia ranks number two worldwide in tin ore reserves, accounting for 17.02% of global reserves. Indonesia also has rich coal reserves. As of 2016, its proven coal reserves accounted for 2.2% of global reserves. In 2015 its coal output reached 469 million tons. Malaysia ranks number five in xenotime reserves and number seven in thorium ore reserves. Vietnam ranks number 13 in titanium ore reserves. Mozambique ranks number nine in titanium ore reserves and number three in zirconium ore reserves. Sri Lanka ranks number seven in xenotime reserves. When it comes to agricultural resources, Indonesia, Malaysia and Thailand have remained the top three players in palm oil output. In 2016 Pakistan emerged as the world's third largest producer of cottonseed.

When expanding overseas, Chinese enterprises now mainly follow six patterns (Qiu & Zhu, 2011). The first pattern is a Sino-foreign joint venture, which means Chinese enterprises co-invest with local enterprises to set up a resource developer. Chinese enterprises can choose a preferred investment form and amount according to their own risk tolerance

and then provide project design, equipment and other services. The second pattern is capacity purchase, which means Chinese enterprises inject capital in an overseas resource developer and in return the developer supplies resources to the Chinese enterprise. The third pattern is merger and acquisition (M&A), which means Chinese enterprises, by means of purchasing the shares of overseas resource developers, acquire a controlling stake, possess long-term exclusive selling rights for mining products and carry resource products back to China. The fourth pattern is risk exploration, which means Chinese enterprises acquire the rights of resource exploration and mining from a host country. The fifth pattern is lease operation, which means Chinese enterprises operate independently for a certain number of years on a lease basis. The sixth pattern is resource exchange, which means Chinese enterprises, by virtue of their brand influence and other strengths, provide "funded construction services" for resource developers of a host country and in return the latter grants resource development rights to the Chinese enterprises. In addition, Chinese enterprises have also developed a "four-in-one" development model featuring "government promotion, development bank financing, enterprise loaning and credit guaranty," effectively alleviating many difficulties during the process of overseas resource development.

In practice, Sino-foreign joint ventures are the primary development model adopted by Chinese enterprises in overseas resource development. This model makes it flexible for relevant enterprises to invest overseas and at the same time helps mobilize foreign enterprises to engage. The development model of lease operation allows Chinese enterprises to avoid complicated M&A processes and possible cultural conflicts. This model is more suitable for Chinese enterprises engaged in mineral exploitation in countries with poor mining infrastructure, particularly those in Africa. Resource exchange is a development model preferred by Chinese enterprises familiar with a host country and capable of maintaining long-term cooperation. The resource exchange model is also more suitable for Chinese enterprises specializing in large-scale resource development projects.

2.5 Marine economy

When it comes to the Maritime Silk Road construction, international maritime cooperation is at the core. Since the 1980s, countries have been increasing investments in the marine economy, enabling continuous expansion of marine segments, rapid progress in marine science & technology, and the constant emergence of marine partnership programs. The rapid development of this modern marine economy forms a new driver for the international cooperation between China and countries along the Maritime Silk Road. The blue economy, featuring global consensus and low sensitivity, is leading the trend of international maritime cooperation and will significantly deepen China's cooperation with ASEAN countries and accelerate the development of the Maritime Silk Road. Specifically, international maritime cooperation along the Maritime Silk Road can be developed through the following four approaches.

The first approach concerns the development and utilization of marine resources. China should strengthen trade ties in energy (oil, natural gas, etc.) and mineral resources with related countries, particularly those with huge oil and gas reserves in the Middle East and West Asia. The second approach concerns investment in marine resource development. China should improve its investment in marine resource development by participating in the division of the global industry chain of oil & gas development, and increasing input in procedures like resource exploration, development, processing and transportation. While enhancing cooperation in development and deep-processing, China

should encourage relevant enterprises to raise their businesses to a higher level in the value chain. The third approach concerns transportation of marine resources. China should enhance cooperation with related countries in re-building corridors for marine energy transportation and ensuring energy supply security. The fourth approach concerns cooperation in marine science & technology. China should give full play to its mighty technological strength to deepen international communication and cooperation in this regard and work together with related countries to actively explore innovative technologies in ocean engineering, sea water desalination, marine environmental monitoring, offshore oil & gas exploitation, offshore platform building, etc. China should increase input in marine science & technology, introduce more international academic institutions specializing in studying marine economy and technology, and hold more theme activities (e.g. international forums on marine science & technology) to enhance international cooperation in marine science & technology and education.

In terms of port construction, China should cooperate with key port cities along the Maritime Silk Road to build port-based industry clusters and forge a supporting platform for international cooperation in production capacity. Industrial zones serve as an important base for industrial transfers and industrial agglomeration. During their process of going global, Chinese enterprises have gradually developed an innovative model of production capacity cooperation, which enables a domestically dominant industry to lead its related upstream and downstream industries and "form a group" to go global. Those port-based industry clusters take advantage of both seaport convenience and hinterland economies. Through cooperation between Chinese and foreign parties at three levels (government, industry zone, and enterprise), China should improve port and zone infrastructures, integrate its industry chain with others and promote international cooperation in production capacity with countries along the Maritime Silk Road.

Regarding maritime ecological conservation, China can take the initiative to develop a mechanism for international cooperation and coordination with relevant countries to enhance China's influence along the Maritime Silk Road by participating in and even taking the lead in the protection of the marine environment. International marine cooperation, along with the development of marine industries, inevitably impose certain pressures on marine environments and may even trigger conflicts of interest among countries. For conflict resolving purposes, international cooperation and coordination is in urgent need. Regarding this, China can play a leading role in formulating a convention on the conservation of marine ecology along the Maritime Silk Road, enhancing the management of marine environmental law enforcement, and facilitating cooperation in ecological conservation-related technology, talents and information with countries along the Maritime Silk Road.

3. Existing problems and suggestions on policy

Recently, the Chinese government and relevant authorities have introduced a range of policies to boost the advancement of the Belt and Road Initiative. According to our rough estimation, authorities at the ministry & commission levels alone have enacted at least 30 policy documents concerning the advancement of the Belt and Road Initiative; governments at provincial and municipal levels and municipalities with independent planning status have also enacted many more relevant policy documents. Evidently, support from the Chinese government is huge. Yet, most of these policy documents are of "opinion" nature and therefore need more time to be

truly implemented. In advancing the Maritime Silk Road Construction, three major types of problems have emerged, which are worth the full attention from the Chinese government.

3.1 Three types of problems

3.1.1 Central Government's one-way advancement, local governments' homogeneous competition, and Chinese enterprises' strong will & weak power

From the perspective of executive subject, major problems that currently trouble the advancement of the Belt and Road Initiative can be summarized as "Central Government's one-way advancement, local governments' homogeneous competition, and Chinese enterprises' strong will & weak power." The fruitful achievements of the Belt and Road Initiative include many state-level strategic cooperation agreements, memos, as well as a variety of assistance projects, which are undertaken by two subjects, i.e. relevant ministries / commissions and large centrally-administered SOEs. The Belt and Road Initiative as a major strategy is clearly shaped and advanced by the Chinese government at the initial stages. However, there is a lack of clear division of labor among executive subjects at different levels. The Central Government's one-way advancement highlights the insufficient participation of local governments and creates doubts from some countries and foreign media about the Belt and Road Initiative.

Local governments are enthusiastic about participating in the Belt and Road Initiative but their engagement remains superficial and formalistic and easily causes homogeneous competition. So far, no fewer than 30 cities have identified themselves as the starting point of the Belt and Road. Worse still, there are even inland cities claiming to be the starting point of the Maritime Silk Road. First, most of the local governments have no intention to truly advance the Belt and Road Initiative in an in-depth way. Rather, they just see it as an opportunity to gain more policy support and resources. Second, local governments only have a superficial understanding of how to engage in advancing this initiative and fail to integrate local conditions and characteristics to precisely position their industries in the Belt and Road context.

Chinese enterprises are strong in will but weak in power in advancing the Bet and Road Initiative. To be fair, this initiative, proposed by the Chinese government, means a rare strategic opportunity for numerous domestic enterprises, many of which are therefore very optimistic about their role in the advancement of the Belt and Road Initiative. In practice, however, a small number of centrally-administered SOEs shoulder the primary missions, while the majority of privately-run enterprises can hardly align themselves with the Belt and Road platform. The existing cooperation is mainly developed in assistance projects and infrastructure investments, which are completed by centrally-administered SOEs under the leadership of the Central Government. Under such circumstances, not many privately-run enterprises have a willingness or chance to participate. Besides, against the domestic backdrop of de-leveraging and capital control, privately-run enterprises are faced with financing restrictions and bias, which further impair their capability of going global.

3.1.2 Insufficient support from financial institutions for the Maritime Silk Road construction

First, the level of participation varies from one financial institution to another. When it comes to participation in the Maritime Silk Road construction, financial institutions which actively participate are mainly policy banks (such as the Export-Import Bank of China) and large state-owned banks (such as Industrial and Commercial Bank of China). Other commercial banks and non-banking institutions do not have any substantial participation.

Second, non-economic factors have a significant impact on financing policy, and economic consideration

is far from enough. The existing collaborative projects mainly fall into the categories of assistance and infrastructure projects, which feature huge capital needs, long construction cycles and low returns. Accordingly, they must be provided with policy-based long-term low-cost loans. Such loans are accompanied with huge opportunity costs, high prepayment risks and questionable sustainability. Besides, they usually leave the wrong impression of being "politically motivated."

Third, financial services lack variety and need to be diversified and localized. Given that current financial support is mainly from policy banks and large state-owned banks, such support is still given in the form of bank loans, while other financial services, such as insurance, funds and securities are yet to come into play. Meanwhile, the abovementioned financial support only allows capital to be injected into the construction of the Maritime Silk Road. Most domestic financial institutions have not started "going global" (carrying out field research & setting up branches), and cannot provide localized financial services overseas.

Fourth, there is a lack of sufficient communications among central banks of relevant countries. Since its establishment, China's Central Bank (People's Bank of China) has paid close attention to the monetary policies of developed countries but overlooked full communications with developing countries. Within the cooperation framework of the Maritime Silk Road, the major contribution of the People's Bank of China is arguably its signing of currency swaps with most countries concerned. In a range of promising areas (clearing mechanisms, risk management, crisis response, monetary policy coordination, green finance development, etc.), the People's Bank of China has barely developed any substantial cooperation with relevant countries and lags in platform construction. This explains why Chinese financial institutions cannot effectively engage in local businesses overseas.

3.1.3 Lack of a sound and complete talent pool

Due to the significant differences in development status among countries along the Maritime Silk Road, all projects, be it of an assistance or green investment nature, must adapt to local conditions to fulfill local needs. This requires relevant Chinese entities to provide localized services overseas. However, China's talent reserve is still quite limited. Previously, China focused on aligning its talent training with the standards of developed countries without paying due attention to relevant issue along the Maritime Silk Road. Because of this, China's talent cultivation failed to catch up with the advancement of the Belt and Road Initiative and this temporary talent gap restricts the continuous advancement of the Maritime Silk Road construction.

To be exact, four types of talent are in urgent need. The first type is financial professional with international vision, familiar with the complicated operation modes of international capital markets. The second type is practical talent capable of addressing real matters in practice. The third type is interdisciplinary talent with high political awareness and capable of promptly identifying non-economic risks. The fourth type is region-specific talent with interdisciplinary backgrounds and research experience in the language, culture and social customs of a particular country or region. Profound vision, good practice and local knowledge are necessities for talents who want to grasp more strategic opportunities, effectively avoid economic and non-economic risks and help Chinese enterprises provide more localized services when expanding markets abroad. It is true that China has accumulated a great deal of valuable development experience, but it may not be easily applied to a foreign country. For example, China's industrial policies and experience in industry zone construction are worth learning from, but before the actual introduction of these policies

and experience consideration must be given to local labor competence, resource endowment, and social systems. There is no "one-size-fits-all" solution.

To properly address the above three problems, the Chinese government should make corresponding adjustments and improvements to better coordinate "Central Government—local government—enterprise" relationships, increase financial support, improve research work, cultivate talent and highlight oceanic features. In doing so, it is expected to further advance the Maritime Silk Road construction.

3.2 Countermeasures and suggestions

3.2.1 Properly controlling the advancement speed and coordinating "Central Government—local government—enterprise" relationships in participation.

As a major strategic concept, the Belt and Road Initiative cannot be achieved in a short time. In advancing the Belt and Road Initiative, more importance should be attached to the overall grasp of long-term performance, rather than specific short-term results. China should properly control the speed of strategic advancement, attach less importance to short-term results, specify job assignments of different executive subjects, and coordinate "Central Government—local government—enterprise" relationships in participation.

The Central Government should strengthen their control of strategic orientation, create a favorable political environment at the macro-level, and pay less attention to specific matters and short-term tasks. The Central Government should focus on the overall strategic positioning and layout of the Belt and Road Initiative, delegate decision-making and planning powers to relevant ministries and commissions, as well as local governments. Meanwhile, the Central Government should also further enhance mutual political trust with relevant countries and forge a favorable political environment for Chinese enterprises to engage in the Belt and Road Initiative. There should be a clear standard that distinguishes existing assistance projects from ordinary infrastructure construction projects. The Central Government should consciously reduce assistance, depoliticize overseas projects and further highlight the joint efforts required in the advancement of the Belt and Road Initiative. In contrast, local governments should consider their local conditions to accurately identify their industrial advantages and engage in targeted areas during the Belt and Road construction. What matters most for this grand cause is not its starting point, but its "key dots." When it comes to labor division and collaboration along the international industry chain, local governments should give full play to their own advantages, enhance their strength in producing competitive products, and subsequently fulfill the real needs of the Belt and Road construction. Only by doing so can local governments expect to truly grasp the strategic opportunities brought about by the Belt and Road Initiative, give full play to their comparative advantages and boost their economies. From a panoramic view, China should reform its management system, set up supporting funds, and encourage more privately-run enterprises to engage in the Belt and Road Initiative. It should introduce targeted supporting policies concerning finance & taxation, foreign exchange management, financing, etc. to stimulate privately-run enterprises to go global and contribute to the Belt and Road construction.

3.2.2 Increasing support from financial institutions for the Maritime Silk Road construction in an all-round way

First, China should enable financial institutions to play a bigger role in this cause. Banks should continue to play the leading role in this regard and commercial banks should be encouraged to provide more credit aids and clearing services for projects related to the Maritime Silk Road. China should also further lift the restrictions on the foreign loans

of commercial banks, encourage them to invest in projects related to the Maritime Silk Road, and improve the risk evaluation and control of relevant projects. It should also upgrade settlement platforms, promote cooperation between commercial banks, and cooperation between commercial banks and the AIIB & Silk Road Fund, and develop a settlement system and a risk prevention system conforming to project reality. While promoting project resource integration and information sharing among commercial banks and improving information disclosure, China should raise more capital for relevant projects through innovative attempts such as syndicated loans. China should strengthen its cooperation with local governments and the banks of countries where relevant projects are located, enhance communications with them, improve the convenience of inter-bank lending, currency settlements and other businesses, and establish bilateral and multilateral mechanisms of risk prevention and treatment. Based on the existing domestic laws and regulations, China should encourage the insurance sector to actively explore new service models for projects related to the Maritime Silk Road. For example, a new pilot insurance model, which integrates insurance products with insurance investments, has been developed and is expected to provide services like construction, liability and credit insurance. Moreover, China also encourages insurance companies with sufficient strength to provide risk management services for major infrastructure construction, equipment manufacturing, etc., improve real economic risk resistance capacity and attract investments in relevant projects. By extensively drawing on domestic investment experience, domestic insurance institutions can take the initiative to raise fund for infrastructure construction and other projects in countries along the Maritime Silk Road by means of creditors' investment plans, equity plans and other modes.

Second, China should enhance cooperation with monetary authorities of relevant countries. Based on the existing platforms and cooperation mechanisms, the central banks of relevant countries should work together to build bilateral and multilateral mechanisms of financial cooperation and coordination and continue to promote bilateral agreements concerning currency swaps and local currency settlements in bilateral trade to lower transaction costs. The financial markets of relevant regions should strive for better connectivity. It is necessary to encourage domestic financial institutions to establish a regular communication mechanism with corresponding overseas financial institutions and multilateral financial institutions. China should further open its bond market to accelerate its development, pave the way for countries along the Maritime Silk Road to issue RMB-based bonds in offshore markets, and work together with these countries to build a multi-layered Asian bond market. Moreover, China should also build and improve its financial regulatory system and an international financial cooperation system. It should enhance communications and coordination with the regulatory authorities of countries along the Maritime Silk Road by establishing regular mechanisms such as conferences of central bank governors. It should also improve its regulatory consistency concerning major issues and gradually build a highly efficient mechanism of regulation and coordination. In addition, it should strengthen cooperation among credit administrations of relevant countries, expand information exchanges among rating agencies, promote the construction of an integrated credit system, and build an early-warning mechanism and a cooperative mechanism of risk management for the financial development of the Maritime Silk Road.

Third, China should prevent any possible financial risks. The first potential financial risk is incurred by local customs, particularly those in

the Islamic world. Islamic finance attaches great importance to the real economy. It allows credit but strictly prohibits risk-free interests and speculation and denies contracts with uncertain terms. China should take the initiative to explore a financial mechanism that simultaneously accommodates Islamic finance and traditional finance, manage Islamic finance in accordance with its unique characteristics, and develop financial products conforming to Islamic doctrines for Islamic countries. The second potential financial risk is possible loss in investment income incurred by exchange fluctuations. The currencies of countries along the Maritime Silk Road usually feature low universality and value fluctuations. Besides, some of those countries are faced with complicated political climates and political turmoil, which is highly likely to affect their exchange stability. Relevant Chinese financial institutions and authorities should promote financial services and product innovations to help relevant enterprises deal with possible exchange risks. The third potential financial risk lies in the sovereign credit of some countries along the Maritime Silk Road. China should promote risk prevention and information sharing among those countries, help Chinese rating and credit information agencies "go global," seek cross-border cooperation and development, and establish necessary national early-warning and rating mechanisms. More efforts should be made to improve regional networks of financial security and establish risk/crisis-response systems for countries along the Maritime Silk Road.

3.2.3 Cultivating specialized talent teams

First, China should establish a joint-training mechanism in collaboration with higher institutions and enterprises. It should encourage specialized higher institutions (such as ocean universities) in China to cooperate with leading enterprises of relevant industries to run certain programs. It should also encourage China's quality vocational institutions, in collaboration with sectors like high-speed train and telecom operations, to expand overseas markets, explore more models of overseas cooperation in education, work together with foreign partners to establish vocational institutions and training centers, jointly develop teaching resources and projects, provide multi-level vocational education and training, and cultivate talents in dire need for countries along the Maritime Silk Road. Second, China should attach more importance to field trips and research during the process of talent cultivation. The Chinese government should establish special aid funds to support the Maritime Silk Road-themed research projects, appropriately relax the control of relevant project funds, and enable talent teams in related fields to make field research in countries along the Maritime Silk Road. This field research should integrate "going global" with "bringing in," which means to send domestic talents to countries along the Maritime Silk Road for further research and at the same time to invite talents from those countries to China for the same purposes. Third, China should promote exchange and communications among academic institutions and think tanks of relevant countries. Along the Maritime Silk Road are numerous countries and regions, whose political, economic and religious backgrounds vary greatly. Given this, "talent cultivation behind closed doors" is bound to fail. China should enhance its communications with countries and regions along the Maritime Silk Road, and establish a regular mechanism of cooperation with relevant subjects (government authorities, academic institutions, think tanks, enterprises, etc.) of these countries and regions. Domestic scholars should strengthen communications and cooperation with research fellows from relevant countries, and promote mutual learning, mutual understanding and the exchange of needed knowledge. Chinese higher institutions should place more emphasis on the cultivation of

talents specialized in regional studies and encourage top domestic talents to pay academic visits to partner institutions and universities in countries along the Maritime Silk Road. China should also facilitate more cooperation in exchange education with relevant countries and invite more students from those countries to study in Chinese universities and colleges.

(Translator: Wu Lingwei; Editor: Jia Fengrong)

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