

Chapter One

Facts about China

I. Overview

1.1.1 Geography

The People's Republic of China is located in the eastern part of the Asian continent, on the western Pacific Rim. Covering 9.6 million square kilometers of land area, it is the third largest country in the world. China borders 14 nations on land, with Russia and Mongolia to the north; Kazakhstan, Kyrgyzstan, Pakistan, India and others to the west; Myanmar, Thailand, Vietnam and others to the south and southeast; and North Korea to the east. Additionally, China shares maritime boundaries with 6 countries, South Korea, Japan, the Philippines, Brunei, Malaysia and Indonesia.

1.1.2 Climate

China has a diversified climate with six temperature zones, the equatorial zone, the tropical zone, the subtropical zone, the warm temperate zone, the temperate zone and the cold temperate zone, from south to north. According to humidity levels, China can be divided into humid, semihumid, semiarid and arid zones, which accounts for 32%, 15%, 22% and 31% of the total land area respectively. The east half of China is dominated by a monsoon climate, with a cold and dry mainland monsoon climate in winter and a warm and moist maritime monsoon climate in summer. Northwest China is dominated by the temperate continental climate.

1.1.3 Political system

The People's Congress is the fundamental political system of China. The National People's Congress (NPC) is the supreme organ of state power in China. The NPC and the Standing Committee of the NPC elect or recall national leaders, including the President. The President of China engages in activities involving state affairs and receives foreign diplomatic representatives on behalf of the People's Republic of China and, in pursuance of the decisions of the Standing Committee of the National People's Congress, appoints or recalls plenipotentiary representatives abroad, and ratifies or abrogates treaties and important agreements concluded with foreign states. The State Council, that is, the Central People's Government, is the executive body of the supreme organ of state power; it is the supreme organ of state administration. The State Council is responsible and reports to the NPC. There are 25 ministries/commissions/administrations under the state council. The Supreme People's Court (SPC) and local people's courts are trial organs and exercise their right of trial independently,

free from interferences of administrative organs, social organizations and individuals. The Supreme People's Procuratorate (SPP) and local people's procuratorates are state organs for legal supervision and exercise their right of supervision independently, free from interferences of administrative organs, social organizations and individuals.

1.1.4 Basic economic system

China is a socialist market economy. The supply of resources and the prices of most commodities and services are regulated by the market. The government sets the prices or provides prices guidelines for only a few commodities or services. The workforce enjoys full mobility and enterprises have fully independent operations within the boundaries of law, free from administrative interventions from the government. In recent years, China's economy and its gross domestic product (GDP) have witnessed strong growth.

1.1.5 Administrative divisions and regional economies

China has administrative control over 31 provinces, autonomous regions and municipalities, as well as the Hong Kong, Macau Special Administrative Regions (SARs) and Taiwan Province. The 31 provinces, autonomous regions and municipalities can be divided into 8 economic zones as follows:

- **The northeast comprehensive economic zone**, which includes Liaoning, Jilin and Heilongjiang. It is home to the heavy equipment manufacturing base, the energy and raw material manufacturing base and a national specialized farm produce base;
- **The north costal comprehensive economic zone**, which includes Beijing, Tianjin, Hebei and Shandong. It is one of the hi-tech research, development and manufacturing bases in China;
- **The east costal comprehensive economic zone**, which includes Shanghai, Jiangsu and Zhejiang. It is one of the most dynamic regional economies in China and a multi-functional manufacturing center;
- **The south costal comprehensive economic zone**, which includes Fujian, Guangdong and Hainan. It is home to a major export-oriented economy, with the manufacturing bases for high-end durable and non-durable goods and a hi-tech manufacturing center;
- **The middle Yellow River comprehensive economic zone**, which includes Shaanxi, Shanxi, Henan and Inner Mongolia. It is the coal mining and processing base, natural gas and water resource development base, steel manufacturing base, non-ferrous metal industry base and dairy production and processing base;
- **The middle Yangtze River comprehensive economic zone**, which includes Hubei, Hunan, Jiangxi and Anhui. It is a agriculture production and processing base specializing in rice and cotton, a raw material manufacturing base specializing in steel and non-ferrous metal, and a auto manufacturing base;
- **The greater southwest comprehensive economic zone**, which includes Yunnan, Guizhou, Sichuan, Chongqing and Guangxi. It is home to a heavy chemical cluster around Chongqing and a textile cluster around Chengdu, and a manufacturing base focusing on the tourism industry;

- **The greater northwest comprehensive economic zone**, which includes Gansu, Qinghai, Ningxia, Tibet and Xinjiang. It is a strategic energy supply base and a comprehensive processing base for cotton, fruit, grain and livestock products. It is a gateway to Central Asia, with a strong tourism industry.

1.1.5.1 Other divisions

In terms of economic development, topography and cultural traditions, China can be divided into the following regions:

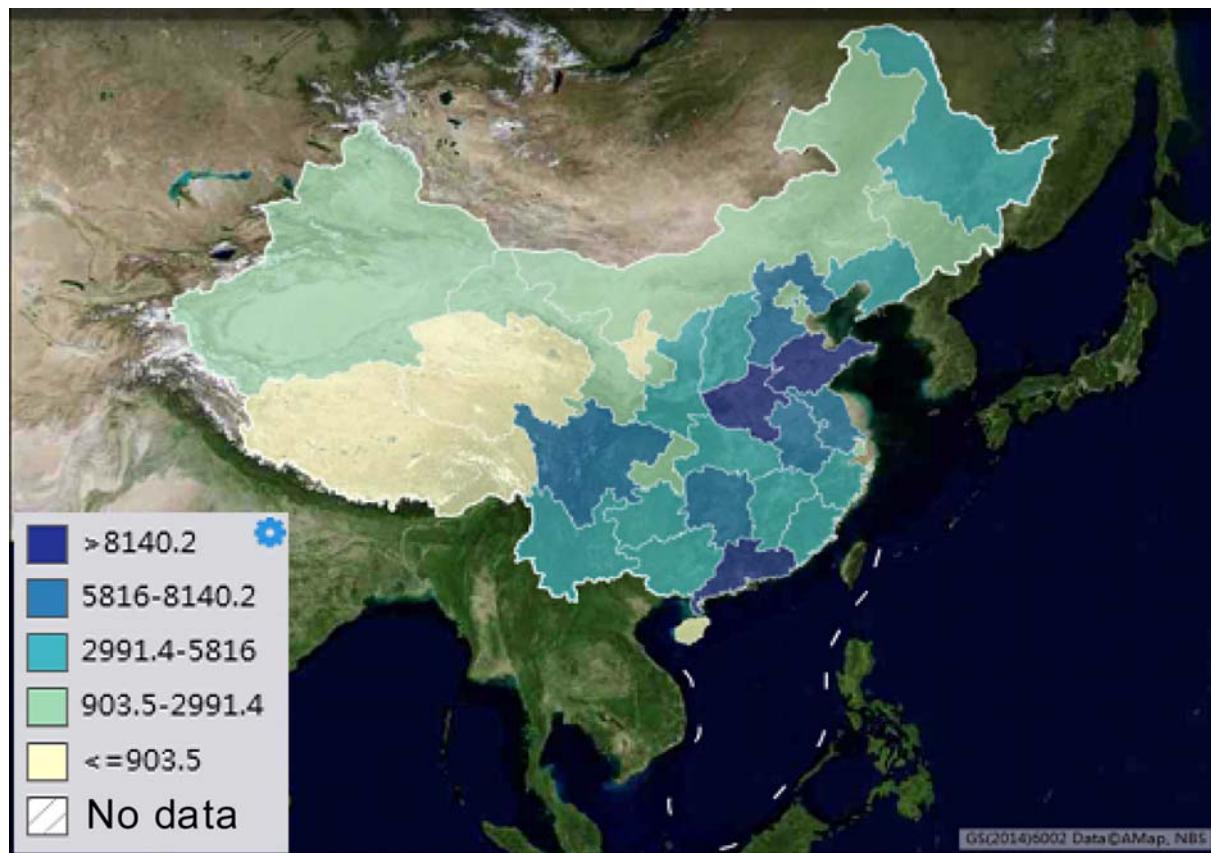
- **The east region**, which includes Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Hainan;
- **The central region**, which includes Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan;
- **The west region**, which includes Sichuan, Chongqing, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Guangxi and Inner Mongolia.

China is also divided, according to administrative regions, into North China, Northeast China, East China, Central south China, Northwest China, Southwest China and the Hong Kong, Macau and Taiwan region.

- **North China includes:** Beijing, Tianjin, Hebei, Shanxi and (central) Inner Mongolia;
- **Northeast China includes:** Liaoning, Jilin and Heilongjiang;
- **North China includes:** Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
- **Central south China includes:** Henan, Hubei, Hunan, Guangdong, Guangxi and Hainan;
- **North China includes:** Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
- **Southwest China includes:** Chongqing, Sichuan, Guizhou, Yunnan and Tibet;
- **The Hong Kong, Macau and Taiwan region includes:** Taiwan, Hong Kong SAR, Macau SAR.

1.1.6 Population

China has the largest population in the world. By the end of 2014, the population of the Chinese mainland (including 31 provinces, autonomous regions, municipalities and the People's Liberation Army, excluding Hong Kong, Macau, Taiwan and overseas Chinese) was 13.6782 billion. The natural growth rate in 2014 was 5.21‰ and the birth rate was 12.37‰. The distribution of permanent residents by the end of 2014 is shown below. (10,000 people):



Source: National Bureau of Statistics (NBS)

1.1.7 Ethnic groups and culture

China's long history has created a culture with enormous diversity and unique traditions. The Chinese people have always valued the collective interests of the family and the society, while adhering to a simple and humble attitude. There are 56 ethnic groups in China. The co-existence of a multitude of ethnic groups has helped to create a culture of diversity and tolerance, making it easy for foreign cultures to blend in. The Chinese government endorses religious freedom and western religions, such as Christianity and Catholicism, are widely spread in China. The official public holidays are New Year's Day, Qingming Festival, Labor Day, Dragon Boat Festival, National Day, Mid-autumn Festival and Spring Festival.

II Natural Resources

1.2.1 Land

By the end of 2013, China had 646.1684 million hectares of farmland, of which 135.1634 million are cultivated land, 253.2539 million are forests and 219.5139 million are grasslands. There are 37.4564 millions of land for construction, of which 30.6073 million are urban and industrial and mining land.

1.2.2 Energy

China is rich in conventional oil and gas resources. Total geological reserve of conventional oil amounts to 108.5 billion tons, 26.8 billion of which is recoverable. 36 billion tons, or 33%, are proven reserves. Total geological reserve of conventional gas is 68 trillion cubic meters, 40 trillion of which is recoverable. 12 trillion cubic meters, or 18%, are proven reserves. The oil and gas reserves in China are mainly located in large basins. The Bohai Bay, Songliao, Erdos, Junggar and Pearl River Estuary contribute more than 80% of China's oil reserve and production, while Erdos, Sichuan, Tarim Basin and sea area contribute more than 80% of China's natural gas reserve and production. By the end of 2013 the proven reserve of coal in China was 1.48429 trillion tons.

1.2.3 Minerals

China is an active mineral trading nation. In 2014 total foreign trade in minerals was USD 1.09 trillion, growing 5.7% year-on-year (YOY). Import grew by 0.9% while export grew by 15.1%. Import in iron ore, copper and potassium chloride grew while import in bauxite, nickel and chromium declined.

| Mineral | Unit | Proven reserve |
|-------------|------------------|----------------|
| Iron ore | 100 million tons | 798.5 |
| Copper | 10,000 tons | 9,111.9 |
| Bauxite | 100 million tons | 40.2 |
| Lead | 10,000 tons | 6,737.2 |
| Zinc | 10,000 tons | 13,737.7 |
| Tungsten | 10,000 tons | 701.4 |
| Tin | 10,000 tons | 425.5 |
| Molybdenum | 10,000 tons | 2,620.2 |
| Gold | tons | 8,974.7 |
| Iron pyrite | 100 million tons | 56.9 |

Source: NBS

1.2.4 Forests

Forests totalled 208 million hectares, or 21.63% of China by the end of 2013. There were 16.433 billion cubic meters of living wood growing stock, 15.137 billion of forest growing stock. Natural forests covered 122 million hectares, with 12.296 billion cubic meters of growing stock; planted forests covered 69 million hectares, with 2.483 billion cubic meters of growing stock. China's forest coverage and growing stock ranks 5th and 6th respectively in the world, while its planted forest coverage ranks 1st. In recent years, the forest resources in China have been growing steadily in both quantity and quality.

1.2.5 Maritime resources

China enjoys abundant maritime resources. It is home to around 700,000 square kilometers of sedimentary basins with oil and gas resources, with an estimated oil reserve of 24 billion tons and gas reserve of 14 trillion cubic meters. There are also large reserves of natural gas hydrate, which is known as the “flaming ice”, an alternative energy source that stands the best chance to replace oil and gas by the end of this century. China has obtained 75,000 square kilometers of polymetallic nodule mines in the international seabed area, with more than 500 million tons of polymetallic nodule reserves. In 2014, gross ocean production reached CNY 5.9936 billion, growing 7.7% over the previous year. Gross ocean production accounted for 9.4% of GDP. It is estimated that about 35.54 million people were employed in maritime-related industries in 2014.

III China's Economy in a New Era

1.3.1 The “new normal”

In the first decade of the 21st century, China experienced high-speed economic growth. In 2010 it surpassed Japan for the first time as the 2nd largest economy in the world. In 2014, China's GDP reached CNY 63.6 trillion (USD 10.4 trillion), taking up 13.3% of world's total and growing 4.1 percentage points over 2010, making it eligible for the “USD 10 trillion club”. Per capita GDP reached CNY 46,629 in 2014, growing 33.6% over 2010 after adjusting for inflation. Gross national income per capita grew from USD 4,300 in 2010 to USD 7,380 in 2014. In the job market, 770 million people were employed by the end of 2014. 13.22 million new jobs were created in urban areas and the registered unemployment rate was 4.1%, consistently below the 5% target. Consumer price index (CPI) remained stable, growing 2% YOY in 2014.

As the size of the economy continues to grow, the growth rate of GDP started to slow down in 2012, registering 7.7%, 7.7% and 7.4% respectively in 2012, 2013 and 2014, which marked a fundamental shift in the growth pattern. China has seen the end of a high-speed growth period, 10% on average for more than 30 years, and entered the “new normal”, marked by the following characteristics:

- From high rate to mid- to high-rate growth.
- The economic structure will be upgraded and the service industry will become a backbone of the economy. The urban-rural gap will gradually shrink and people's income will account for a larger share of the national economy.
- The Chinese economy will transform from the production investment-driven model into an innovation-driven model. Hi-tech industries will grow significantly faster and emerging industries of strategic importance will continue to expand.

According to data from National Bureau of Statistics (NBS), consumption-driven growth outweighed investment-driven growth in 2014¹; value added of the service industry took up more share in the GDP than that of the secondary industry; high-tech industry and equipment manufacturing industry grew faster than average industrial growth; energy consumption per unit of GDP was on the decline². These data suggest that the Chinese economy is shifting towards growth of better quality.

¹ Securities Daily, Consumption contributed more than 50% of economic growth. Final consumption was estimated to have contributed more than 50% of economic growth, 2.6 points higher than capital formation, becoming an important growth driver.

² Statistical Communique on 2014 National Economy and Social Development: value added share of GDP of these secondary industry was 42.6% and tertiary industry 48.2%. Industrial output grew 7.0% YOY, value added of hi-tech manufacturing industry grew by 12.3% and equipment manufacturing industry 10.5%; Energy consumption per CNY 10,000 of GDP decreased by 4.8%.

1.3.2 Transformation brings new opportunities

While the economy is slowing down, Chinese economy still presents significant growth and serves as a key engine for growth to the world economy. In the meantime, the demand from China will not diminish. Under the “new normal”, China has entered a new era of transformation.

1.3.2.1 Transformation in consumption

China has entered a new era of consumption-led growth. History has shown that consumption usually becomes a major driver to GDP growth when per capita income reaches USD 3,000 to 5,000. In the context of China, the consumption transformation is seen in the transition from daily necessities to durable consumer goods, and from private goods to public goods. According to Morgan Stanley, China will witness a golden decade in the next ten years in consumption. By 2020, total consumption in China will be equivalent to two thirds of that in the US and account for 12% of the world's total Consumption. According to McKinsey, in 2008 domestic demand of China was only 1/6 of that of the US, but by 2020 China is expected to be the world's largest market, accounting for 25% of the world's total consumption.

1.3.2.2 Transformation in trade

Since 2014, China has forged ahead with the “Belt and Road”, while making breakthroughs in a series of free trade agreements (FTAs) negotiations. A new framework for an open economy is on the horizon. In the past decade, China strived to transform its foreign trade, from quantity to efficiency, from low-value processing to high-value innovation, and from export-led to a balanced approach. The results are becoming increasing apparent, even if there are still many issues. The share of general trade in total foreign trade is on the rise, signally a change from export-led to domestic-driven. The quality of foreign trade has also improved.

Under the new normal, China will seek quality over quantity. In exports, China will upgrade from low-end, labor-intensive products to products with higher added value and technology/brand value. In imports, the demand for advanced equipment will rise while more high quality commodities will be imported to meet consumer demands.

1.3.2.3 Transformation in investment

China has become the largest destination for foreign direct investment (FDI) and third largest country for outbound investment. The investment landscape in China has undergone significant changes. In recent years, China's advantages in labor cost, land and energy are declining, increasing the cost for foreign-invested enterprises (FIEs). In particular, labor-intensive and resource-intensive manufacturing is losing its cost advantage. According to some research, the manufacturing cost advantage of China against US will be reduced from 20% in 2010 to 11% in 2015; BCG predicts that by 2015, the manufacturing cost of the US will be only 5% higher than that of the Yangtze River Delta in China. According to the Ministry of Human Resources and Social Security, 19 regions in China adjusted the minimum wage standards, with an average increase of 14.1%. Under the new normal, China will focus on advanced technology, managerial expertise, branding, channel, research and

development and service when it comes to attracting FDIs. For outbound investment, Chinese companies were initially driven by a desire to acquire strategic resources and expand export. Now it is driven by multiple factors, including learning from best practices, brands and international sales channels.

1.3.2.4 The green economy

Resource- and energy-intensive industries take up a significant share in China's economy. According to the World Bank, China is currently the world's largest consumer of iron, steel, copper, nickel and aluminium, and second largest of oil, which is a direct result of China's bias towards resource- and energy-intensive industries. Under the new normal, this growth model based on high consumption and pollution will be gradually replaced by a low carbon and green economy.

Between 2011 and 2014, energy consumption per unit of GDP was reduced by 13.4%, industrial power consumption and water consumption 21% and 28% respectively. Non-fossil energy accounted for 11.1% of primary energy consumption in 2014, up by 2.8 percentage points over 2010, while the share of coal lower to 64.2%.

1.3.3 Innovation as key engine for future growth

Historically China's traditional industries achieved high growth with high investment, high emission, high pollution, high energy and water consumption, and low efficiency and low added value. It is imperative, therefore, to transform this growth model. During the 12th Five Year Plan (FYP) period³, emerging industries of strategic importance were given priority and innovation became a key engine for growth.

1.3.3.1 Emerging industries of strategic importance

In the 12th FYP, China spelled out the plans for seven emerging industries of strategic importance. The goal was to increase the share of added value from these emerging industries would increase from 3% at the end of the 11th FYP to 8% in 2015, and further to around 15% by 2020. These emerging industries symbolize China's gravitation towards innovation and would be key areas for investment in the future.

| Emerging industries of strategic importance | Sub-industries |
|--|---|
| Energy-saving and environmental protection | Energy-saving building, emission processing, environmental protection and smart grid |
| New generation of information technology | Convergence of three networks, internet of things (IOT), next generation communication networks, high performance integrated circuits and cloud computing |

³ The FYP is an integral part of China's economic planning, which serves as a guideline to shape the national economy for the long term. China drew its first FYP in 1953, and is in its 12th FYP period between 2011 and 2015. 2015 marks the last year of the 12th FYP and 2016 will be the first year of the 13th FYP.

| | |
|----------------------------------|---|
| Biotech | Innovative drugs, biopharmaceuticals, advanced medical equipment, breeding, stem cell and genetic modification |
| High-end equipment manufacturing | Smart equipment, high-end power equipment, aviation and aerospace, offshore engineering and advanced transportation equipment |
| New energy | Nuclear, wind and solar power, clean coal, biomass, smart grid, distributed power management and new energy for automobiles |
| New material | Functional materials, high performance composite materials, new chemical materials and nano-materials |
| New energy automobiles | Electric, hybrid and hydrogen vehicles, charging equipment, lithium battery and parts for new energy cars |

Source: Deloitte

1.3.3.2 Made in China 2025

The industrial world witnessed Industry 1.0, 2.0 and 3.0, marked by mechanized manufacturing, electrification and automation, and electronics and information technology respectively. Since the global financial crisis in 2008, the Industry 4.0, characterized by smart manufacturing, ushered in a new round of revolution across the world. The integration of new generation information and communication technology (ICT) and manufacturing is revolutionizing the whole manufacturing industry.

Under this trend, the manufacturing industry is once again in the spotlight. Most developed nations have made reindustrialization strategies to compete for a leading role in the mid- to high-end manufacturing industries. In the meantime, developing countries are competing to attract labor-intensive and low added value industries through their cost advantage. The global manufacturing landscape will experience a fundamental change.

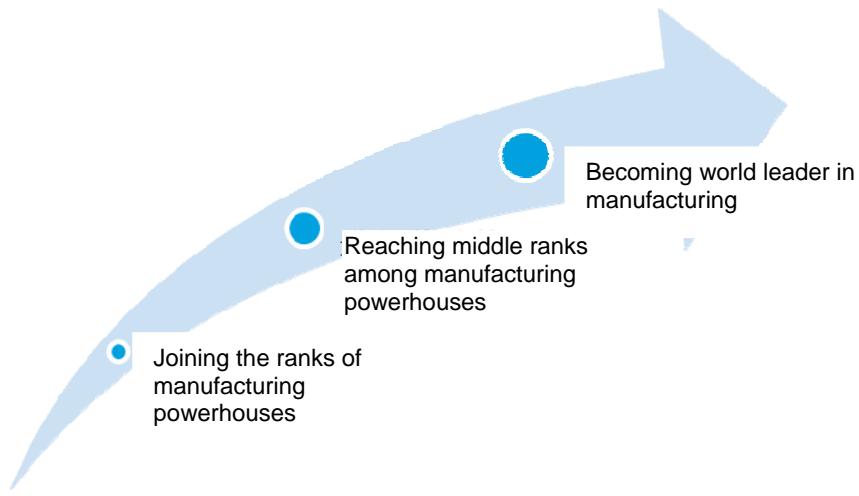
Since its opening up and reform, China has seen rapid development in its manufacturing industry and a full range of industries is well established. However, there is still a long way to go in terms of independent innovation, resource utilization and informatization. It is imperative for China to transform itself and achieve leap-frog development.

“Made in China 2025” is the first 10-year action plan designed to transform China from a manufacturing giant, putting forward 9 tasks, 10 key sectors and 5 key projects. Different from any specific industry plans, it is a long-term strategic plan, taking into consideration of the economic and social mega-trends both in China and abroad. It not only aims to encourage the transformation of traditional manufacturing industries, but also achieve leap-frog development by embracing new technologies.

- **The three steps towards a manufacturing giant**

China is to go through three steps towards a manufacturing giant. By 2025, China is to be ranked among countries of a strong manufacturing industry; by 2035, China is to be elevated to the mid-

ranking position among these powerhouses; and by 2045 China is expected to become a world leader in manufacturing.



- **9 tasks**

They are improving manufacturing innovation, integrating information technology and industry, strengthening the industrial base, fostering Chinese brands, enforcing green manufacturing, promoting breakthroughs in key sectors, advancing restructuring of the manufacturing sector, promoting service-oriented manufacturing and manufacturing-related service industries, and internationalizing manufacturing.

- **10 key sectors**

They are new information technology, numerical control tools and robotics, aerospace equipment, ocean engineering equipment and high-tech ships, railway equipment, energy saving and new energy vehicles, power equipment, new materials, biological medicine and medical devices, and agricultural machinery.

- **5 key projects**

They are manufacturing innovation centers, high-end equipment manufacturing projects, green manufacturing projects, smart manufacturing and strong industrial bases.

1.3.3.3 Internet plus

“Internet Plus”, referring to the application of the Internet and other information technology in conventional industries, aims to give full play to the Internet in resource allocation. This convergence will spur innovation and reshape industries.

On July 4th, 2015, under the approval of Premier Li Keqiang, the State Council published the Opinions on the Promotion of Internet Plus to encourage the application of mobile internet, cloud computing, big data and IOT in modern manufacturing. It will also facilitate the development of e-commerce, industry internet and internet finance. Internet companies are encouraged to expand into the

international market. Currently China has earmarked CNY 40 billion funds to support startups in the emerging industries and more will be raised in the future.

In recent years, Internet Plus has reshaped many sectors. The e-commerce, internet finance (ITFIN), online tourism, online video and online property services industries are all results of Internet Plus.

- **Transforming traditional industries**

In telecommunications, “Internet+communications” has resulted in messaging apps for voice, text and video communication. Telecom operators now generate much more revenue from data service than from conventional text messaging and voice calls. In transportation, the mobile internet has spurred the creation of a host of applications to improve automobile utilization and reduce emission. In financial services, the Internet finance industry has experienced healthy growth and is supported by national policies.

- **Elevating emerging industries**

In recent years, the development of the mobile internet has accelerated the integration of cloud computing, big data and IOT with traditional industries. The role of these emerging industries of strategic importance is further elevated.

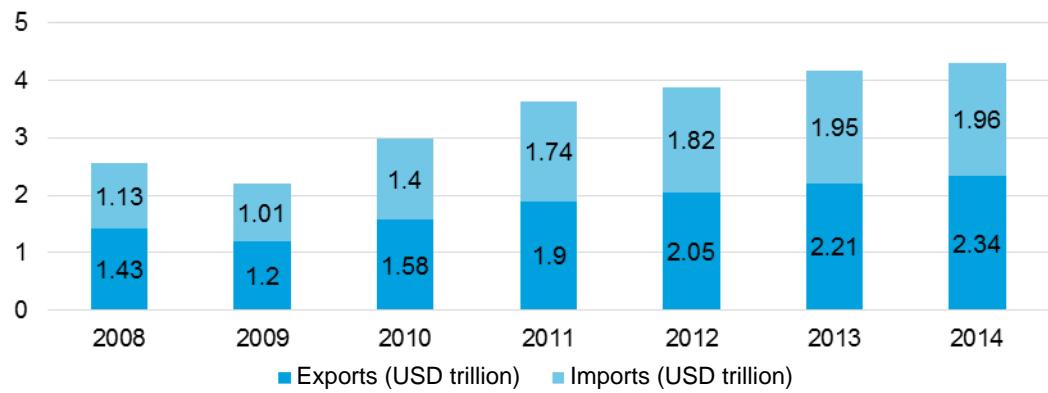
IV. Closer Ties with the World Economy

1.4.1 World's largest trading nation

Since its reform and opening up, China has built ever stronger economic ties with the world. The accession into the World Trade Organization (WTO) in 2001 marked the beginning of China's attempt to join the globalization trend. One direct implication of this milestone event was an explosive growth in China's foreign trade. In the first three years of joining the WTO, China's foreign trade grew by 21.8% (2002), 37.2% (2003) and 35.5% (2004) respectively, while the data for the three years prior to joining was 11.3% (1999), 31.4% (2000) and 7.4% (2001).

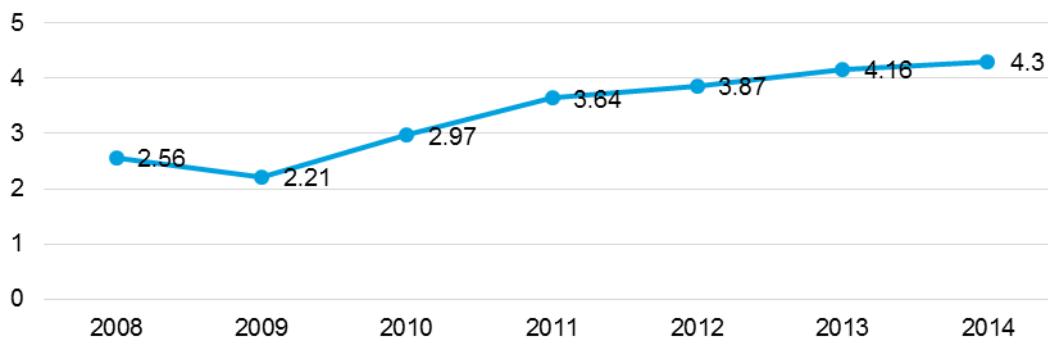
Since 2008, China's foreign trade has consistently seen growth, with the only exception in 2009, when the global financial crisis hit. In 2013 China surpassed the US for the first time to become the largest trading nation in goods. In 2014 China again overtook the US as the world's largest economy and is expected to remain at that position for the next few years.

Fig. 1.4.1-1 China's foreign trade between 2008-2014



Source: Calculated with Wind data. Final data from NBS

Fig. 1.4.1-2 China's foreign trade between 2008-2014
(USD trillion)



Source: Calculated with Wind data. Final data from NBS

1.4.2 A balanced approach for bilateral and multilateral collaboration

Joining the WTO was just one of China's multilateral initiatives towards globalization. In 1991, China joined the Asia Pacific Economic Cooperation (APEC); in 1999, China became a member of the G20; and in 2008, China co-founded the BRICs summit with other member countries. All these initiatives serve to build a stronger tie with the rest of the world.

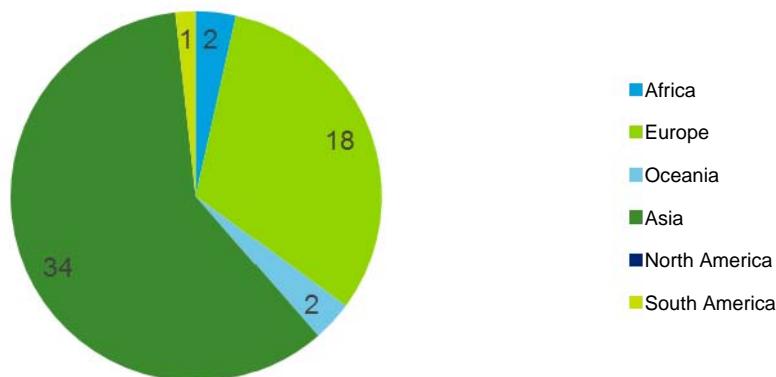
In the meantime, China is making a strategic shift of focus towards a more balanced approach for both bilateral and multilateral collaboration, with a view to promote regional economic integration. Under the WTO framework, China signed FTAs with a number of countries. In 2002, the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation marked the first of FTA negotiations between China and other countries. After more than a decade of development, this area has become the largest free trade zone among developing nations and serves as a role model for south-south cooperation.

As of June 2015, China signed 14 FTAs involving 22 countries and regions, which extends from Asia and Latin America to Europe, and from developing countries to developed ones (the China-New Zealand FTA, signed in 2007, was the first between China and a developed nation. the China-Switzerland FTA, signed in July 2013, was the first between China and a continental Europe country, a top 20 economy in the world. While consolidating its economic ties with neighboring countries (such as South Korea, Singapore and Pakistan), China is proactively exploring the international market for more breadth and depth.

1.4.3 Asian Infrastructure Investment Bank for sustainable development

Rapid economic development has given China a louder voice in world trade and also a bigger responsibility. In recent years, China started to take a leading role in regional economic integration. In 2013, China proposed the establishment of the Asian Infrastructure Investment Bank (AIIB) to promote regional development. This move will also reinforce China's ties with other Asian countries and regions.

Fig. 1.4.3-1 Prospective founding members of AIIB by region



As of April 15, 2015, 57 countries from five continents became prospective founding members of AIIB, including mature economies, such as the UK and Germany, and emerging ones such as India and South Africa. Such representation showed a great expectation from the international community. On June 29, 2015, the Articles of Agreement of Asian Infrastructure Investment Bank was signed in Beijing. 50 countries, having gone through the domestic ratifying process, officially signed the Agreement.

With 60% of the world's population and one third of the world economy, Asia presents great potential. However, infrastructure remains a huge challenge in many Asian countries due to lack of funding. AIIB will specifically target this problem by providing funding support and facilitate ties among Eurasia countries. By attempting to build a new financial order, China wants to address weaknesses in the old one to promote sustainable development of Asia and the world. Poland, one of the Central and Eastern Europe countries, was also a founding member of AIIB.

1.4.4 The Belt and Road Initiative

The Belt and Road Initiative was short for the Silk Road Economic Belt and the 21st-Century Maritime Silk Road. In September and October 2013, Xi Jinping, President of China, proposed these concepts to build an open, inclusive and balanced regional economic cooperation framework by encouraging policy coordination and regional integration among countries in this region for more efficient resource allocation.

- The Silk Road Economic Belt starts in China and goes through Central Asia and Russia to Europe (the Baltic); through Central Asia and West Asia to the Persian Gulf and the Mediterranean; through Southeast Asia and South Asia to the Indian Ocean.
- The 21st-Century Maritime Silk Road starts in costal cities in China and goes through the South China Sea to the Indian Ocean and then to Europe; through the South China Sea to South Pacific.

The Belt and Road Initiative meets common aspiration of the countries involved and serves as a new platform and window of opportunities for international cooperation. Many countries, in particular Central and Eastern European countries, have high complementary economies and tremendous collaboration potentials in the areas of infrastructure and financial services.

In the future, China will cooperate with countries along the Belt and Road in the fields of infrastructure, trade and investment, energy, regional integration and internationalization of Renminbi. This will significantly lower investment cost and barrier in the region, encouraging investment and regional integration for mutual benefit.

V China's Ties with Central and Eastern Europe

1.5.1 Overview of Central and Eastern Europe

The definition of Central and Eastern Europe (CEE) may differ depending on the context, geographical or political. This report defines CEE as the 16 countries that participated in the China-CEE Summit in Warsaw, Poland in 2012, including Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia, Romania, Bulgaria, Serbia, Montenegro, Macedonia, Bosnia-Herzegovina, Albania, Estonia, Lithuania and Latvia. Multiple leader summits have been held since then.

The size and population of CEE countries vary. For example, Poland, the largest country in territory, has 38 million people, while the smallest one, Montenegro, only has about 600,000. 11 of the 16 countries are members of the EU (Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Romania, Bulgaria and Croatia), among which Slovenia, Slovakia and Estonia are members of the Eurozone. Czech Republic, Hungary, Poland, Slovakia, Slovenia and Estonia have joined the Organization for Economic Co-operation and Development (OECD).

1.5.2 China's trade ties with CEE

The friendship between China and CEE goes back a long way. Most CEE countries were among the first to recognize the People's Republic of China and had more than 60 years of exchanges with China. Amidst the twists and turns of the history, both sides have consistently adhered to the principles of mutual respect, mutual understanding and reciprocity.

1.5.2.1 Leaders' summit and trade forum

The first China-CEE Trade and Economic Forum was held in 2011, and the first China-CEE Summit in 2012. In Nov 2015 the fourth China-CEE Summit and fifth Trade and Economic Forum were held. The summit has become the highest level of dialogue to discuss cooperation between the two sides and attracted an increasingly large number of political and business participants.

- In April 2012, the first China-CEE Summit was held in Warsaw, planning for a future of mutually beneficial cooperation. The then Premier Wen Jiabao announced 12 initiatives to promote China-CEE ties and made four proposals on principles of cooperation. Since that summit both sides have made headways in many areas. In 2012 trade between China and CEE reached more than USD 50 billion, more than 16 times of that in 2000.
- On Nov 26, 2013, the 2nd China-CEE Summit was held in Bucharest. Premier Li Keqiang attended the Summit and the two sides published the Bucharest Guidelines. According to the Guidelines, the China-CEE Summit will be held annually to take stock of past achievements and plan for the future.

- On Dec 16, 2014, the 3rd China-CEE Summit was held in Belgrade with the theme of “new driving force, new platform, new engine”. Premier Li Keqiang attended the Summit with leaders from 16 CEE countries and made five proposals on deepening cooperation.
- On Nov 24, 2015, the 4th China-CEE Summit and the 5th Economic and Trade Forum were held in Suzhou. At the Summit, Premier Li Keqiang proposed the “1+6” framework: one goal to build a new model of partnership featuring openness, inclusiveness and win-win outcomes, and cooperation six areas including, among others, the Belt and Road Initiative, production capacity, “Internet Plus”, industrial parks and financial services. After the summit, Premier Li invited the leaders of the 16 countries to take the high-speed train from Suzhou to Shanghai.

1.5.2.2 Achievements of China-CEE cooperation mechanism

- **Investment and trade**

In 2015, the total China-CEE trade amounted to USD 56.2 billion, 14.1 billion of imports and 42.1 billion of exports. China’s investment in CEE countries grew from less than USD 100 million in 2003 to almost 5 billion in 2015. The investment from 16 CEE countries in China grew from USD 420 million to 1.1 billion.

- **Financial services**

China and CEE cooperated closely in the financial services industry. China has set up a USD 10 billion special purpose loan to work with CEE countries in technology, financial services, education, energy and infrastructure. In addition, China and 16 CEE countries have set up branches of financial institutions in each other’s markets. The People’s Bank of China (PBoC) was encouraged to sign currency swap agreements with its CEE counterparts, so that local currencies can be used in settlement to facilitate trade and investment.

- **Cooperation on projects**

Since the inception of the cooperation mechanism, China has collaborated with CEE countries on a number of projects, including: the expressway project in Macedonia, the Kostolac Power Plant Phase II project in Serbia, the Stanari Coal-fired Power Plant in Bosnia and Herzegovina, the expressway project in Serbia, the Zemun-Borca Bridge project in Serbia and CSR’s order for 6 motor train units from Macedonia.

- **Interconnection**

China has opened up the logistical pathway with Europe on land and sea, encouraging companies to set up bonded zones and distribution centers along railways and ports and create a new “logistics artery”. Some key projects are: the 11,179 km Chongqing-Xinjiang-Europe Railway, opened in 2011; the Wuhan-Xinjiang-Europe Railway, from Wuhan to Prague, opened in 2012; the Chengdu-Europe Express Rail, from Chengdu to Lodz, Poland, opened in April 2013; the Zhengzhou-Xinjiang-Europe Freight train, from Zhengzhou to Germany, opened in July 2013; the 1,000 km Hungary-Serbia Railway, from the Black Sea through Romania to Hungary, was announced in November 2013 by China, Hungary and Serbia as an iconic project in China-CEE cooperation. At the 3rd China-CEE

Summit in December 2014, Premier Li Keqiang proposed the development of a new corridor centered on the Hungary-Serbia railway and Piraeus Port. In November 2015, Premier Li Keqiang pledged at the opening ceremony of the 5th China-CEE Economic and Trade Forum that China will speed up the implementation of the interconnection project to improve transportation infrastructures in the region. He announced that promoting synergy with the Belt and Road Initiative would be a key priority; China will work with related countries to complete the Hungary-Serbia railway in two years; China stands ready to build the China-Europe expressway on land and sea with other stakeholders so that CEE will serve as an express channel for China-Europe trade; China will invest in ports in CEE countries and collaborate in internet infrastructure, to build stronger interconnections through land, sea and the internet.

- **Cultural exchanges**

In 2006, the first Confucius Institute in CEE was established in Bulgaria. By May 2014, 24 Confucius Institutes and 8 Confucius Classrooms were established in 14 out of the 16 CEE countries, with an 800 people faculty and 18,000 students. In the next five years, China plans to offer 5,000 scholarships to CEE countries and invite 1,000 students to study Chinese in China. In 2011, 230,000 trips were made by CEE citizens to China. The number rose to 320,000 in 2012, growing by almost 40%.

- **Trade activities**

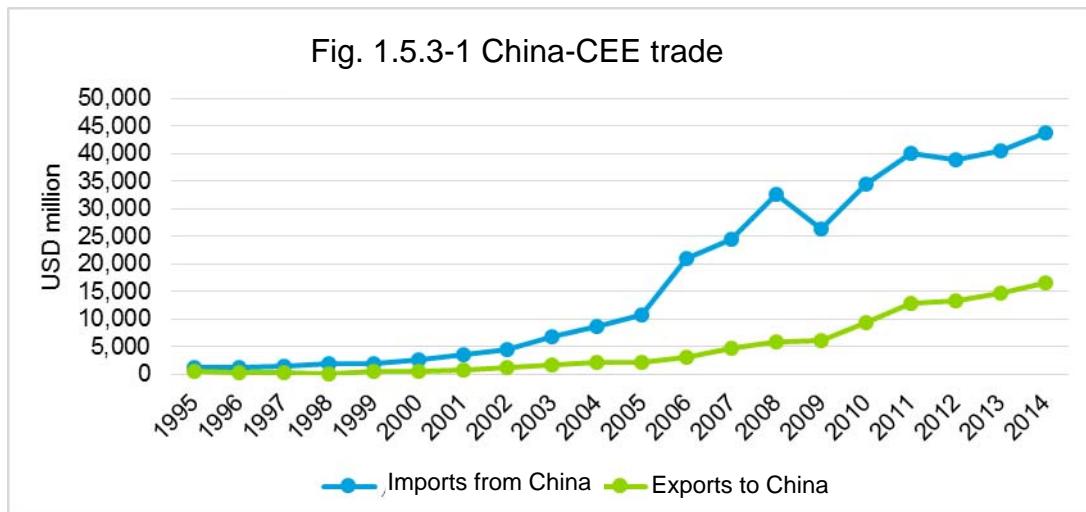
On June 8th-12th, the 1st China-CEE Investment and Trade Expo was held in Ningbo. With the theme of “Opening Up and Cooperation on the Belt and Road”, 18 key events were held and 185 agreements were reached. Yang Jiechi, China’s State Councilor, attended the Expo with CEE leaders such as the Vice Premier of Montenegro and the Vice Chair of the Council of Ministers of Bosnia and Herzegovina. More than 10,000 merchandises from more than 200 CEE countries were on exhibition. During the China-CEE Investment and Cooperation Symposium, 132 investment projects were launched. More than 200 Chinese companies met with more than 70 CEE investment promotion agencies and companies and a number of agreements were signed.

On June 16, 2015, the Chinese Brand Fair was held in Budapest. CEE customers met with more than 130 exhibitors from Shandong, Shanxi, Guangxi, Hebei, Shanghai and Ningbo, covering areas including machinery and electrical equipment, construction materials, fitness equipment, textiles, grocery and food. Shandong and Shanxi will host trade and investment promotion events to pursue further opportunities with CEE countries.

1.5.3 Import and export

Historically, China and CEE have always shared close political and economic ties. Today with China’s rapid development and CEE’s economic and social transformation, that relationship has also opened a new chapter. For CEE countries, collaboration with CEE countries can benefit their own economies. On the other hand, CEE is also an important “economic corridor” for China to connect with the larger part of Europe and implement the Belt and Road Initiative. At present, the main avenues for economic and trade cooperation are import and export, corporate merger and acquisitions and FDI, among which import and export takes up the lion’s share.

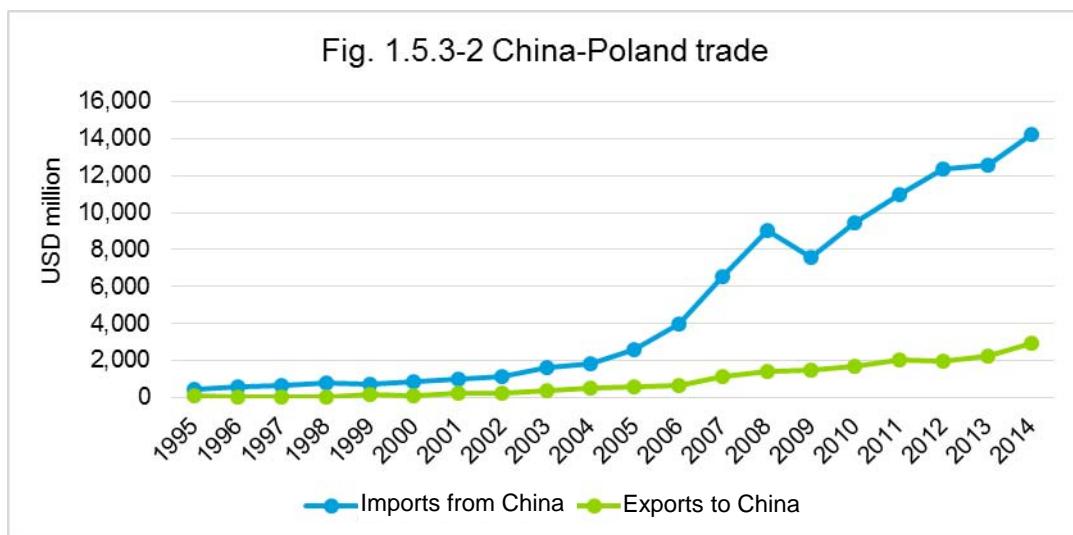
Statistics show that the China-CEE trade is still dominated by imports from China, which has consistently grown in the past 20 years, with the exception of 2009, affected by the global financial crisis. Moreover, the growth rate picked up significantly after 2005. At the same time, exports from CEE to China also grew year on year, albeit at a slower pace.



Source: Calculated with Wind data. Final data from NBS

Among the 16 CEE countries, Poland is China's largest trading partner. Total trade reached USD 17.19 billion in 2014, 14.26 billion imports from China and 2.94 billion exports to China, growing 13.4% and 31.3% respectively over 2013. Since the beginning of this year, Poland and China have jointly launched many trade fairs and promotion events as practical means to facilitate cooperation.

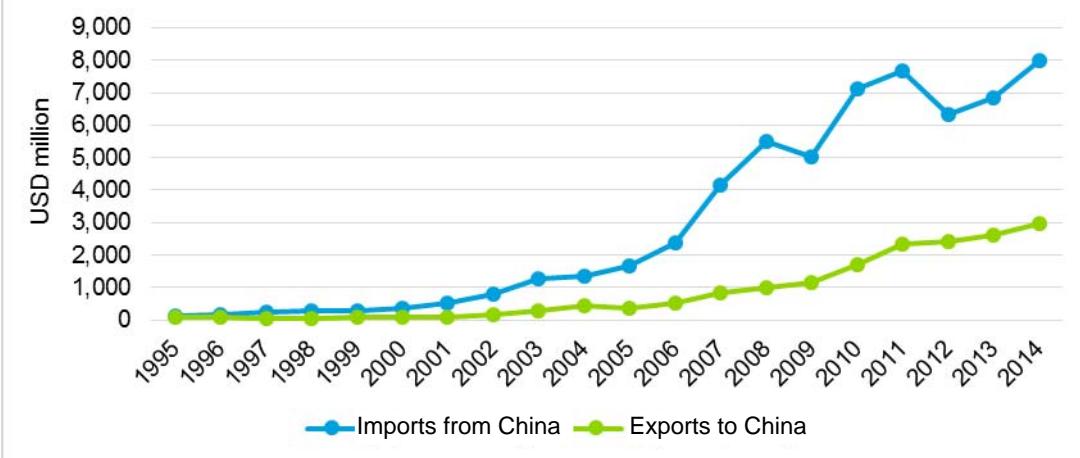
For example, the Chinese Home Furnishing Brand Expo in CEE (Poland) was held in Poznan, Poland at the end of May 2015. It was the largest Chinese product show in Poland and the most influential Chinese fair in CEE. At the beginning of September, the 18th Poland International Maritime Exhibition was held in Gdansk, which was the largest maritime exhibition in CEE and well known in Europe.



Source: Calculated with Wind data. Final data from NBS

The next two largest trading partners are Czech Republic and Hungary. Czech's imports from China experienced much more fluctuation than that of Poland after the global financial crisis, and again dipped in 2012, while exports to China remained relatively stable. In 2014, total Czech-China trade exceeded USD 10.98 billion, growing 16.2% over 2013. Similar to Poland, the Czech-China trade also had a period of fast growth before the crisis.

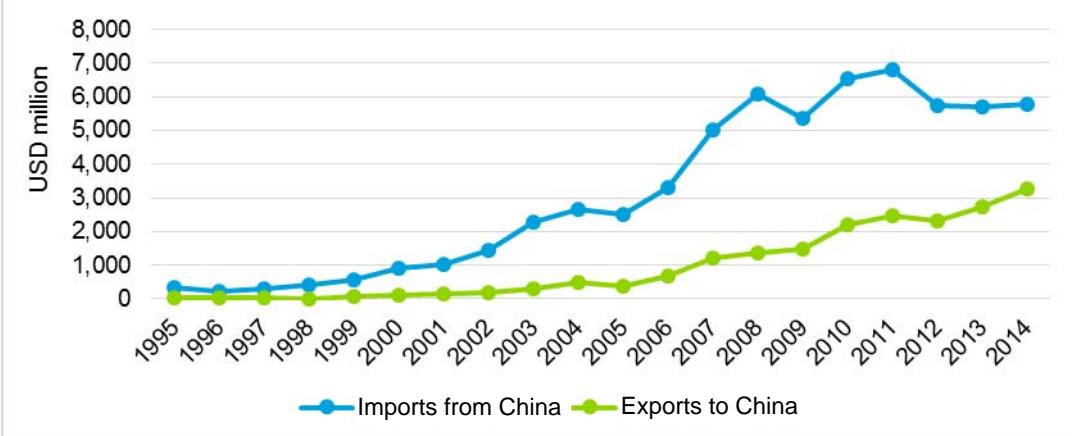
Fig. 1.5.3-3 China-Czech trade



Source: Calculated with Wind data. Final data from NBS

Hungary also enjoyed growth in its trade with China from a long-term perspective. In the wake of the global financial crisis in 2008, however, imports from China experienced much fluctuation, and the growth was almost flat in 2013 and 2014. Exports to China continued to grow, reducing the trade deficit with China. In 2014, total Hungary-China trade was USD 9.02 billion. Imports only grew by 1.3% over 2013, but exports grew by 20.0%.

Fig. 1.5.3-4 China-Hungary trade



Source: Calculated with Wind data. Final data from NBS