

CHINA'S GOVERNMENT AND ECONOMY



A CRASH COURSE ON CHINA

“ Let China sleep. For
when china wakes, she
shall shake the world.”

Napoleon Bonaparte

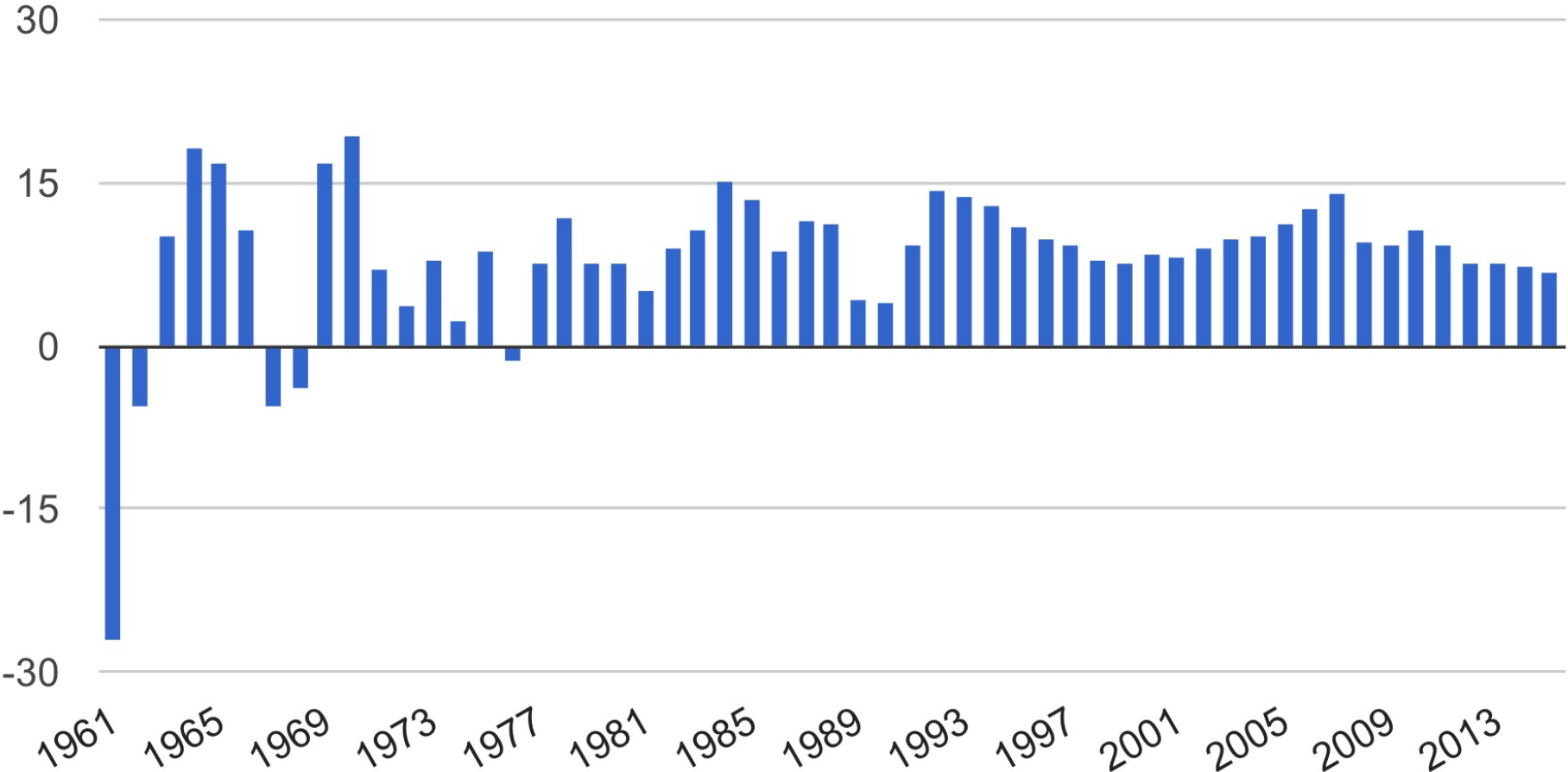
The background of the slide is a collage of Chinese currency. It features several silver and gold coins of various denominations, including 1 Yuan and 2 Yuan pieces, scattered across a red banknote. The banknote prominently displays the portrait of Mao Zedong. The overall composition is dense and textured, with the red of the banknote providing a strong contrast to the metallic tones of the coins.

China: the Emerging Economic Giant

STATISTICAL OVERVIEW

18-03-09

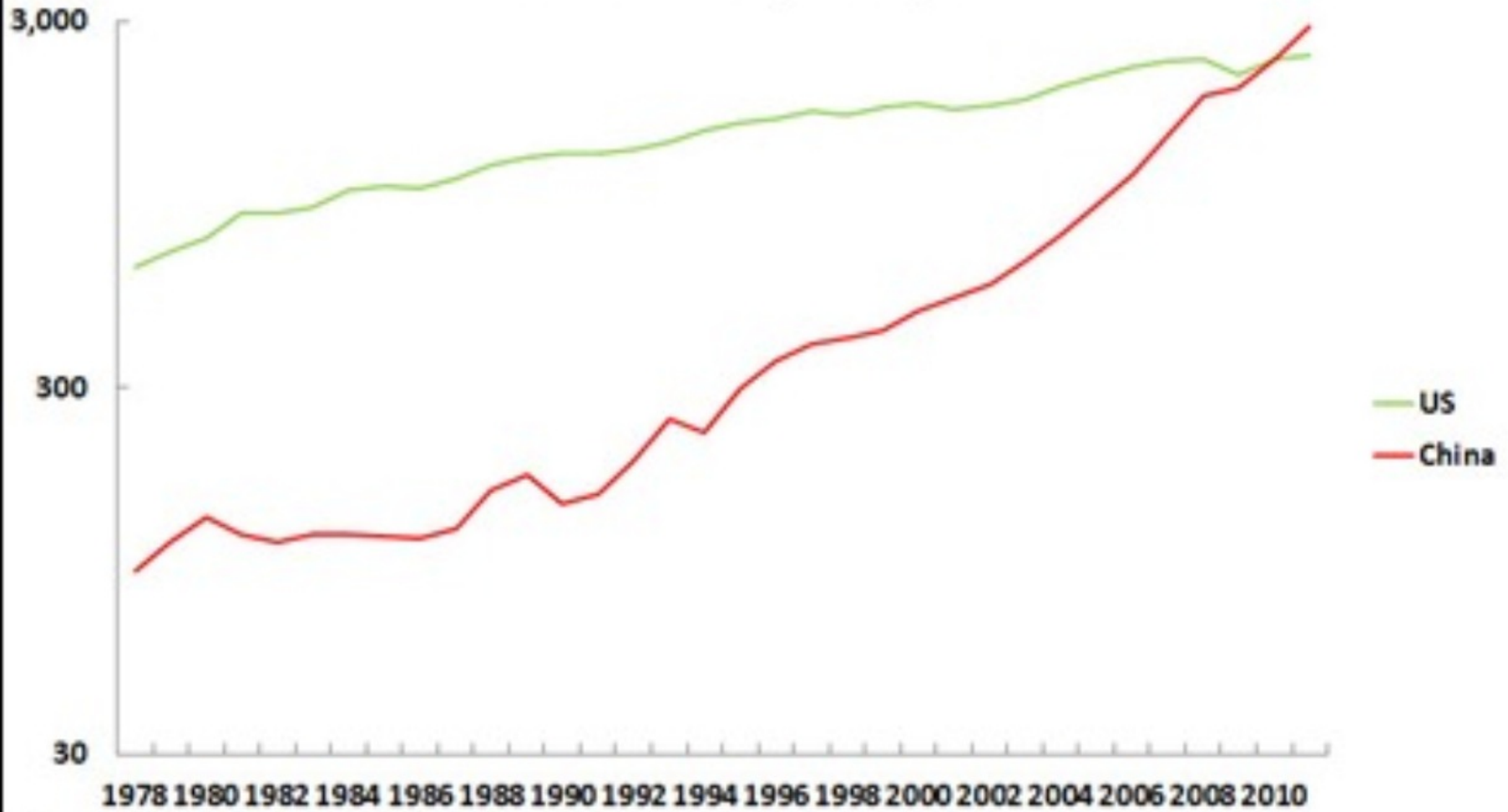
China Economic growth : 1961-2013



Source: www.globaleconomy.com/China/Economic_growth

China and US industrial Production

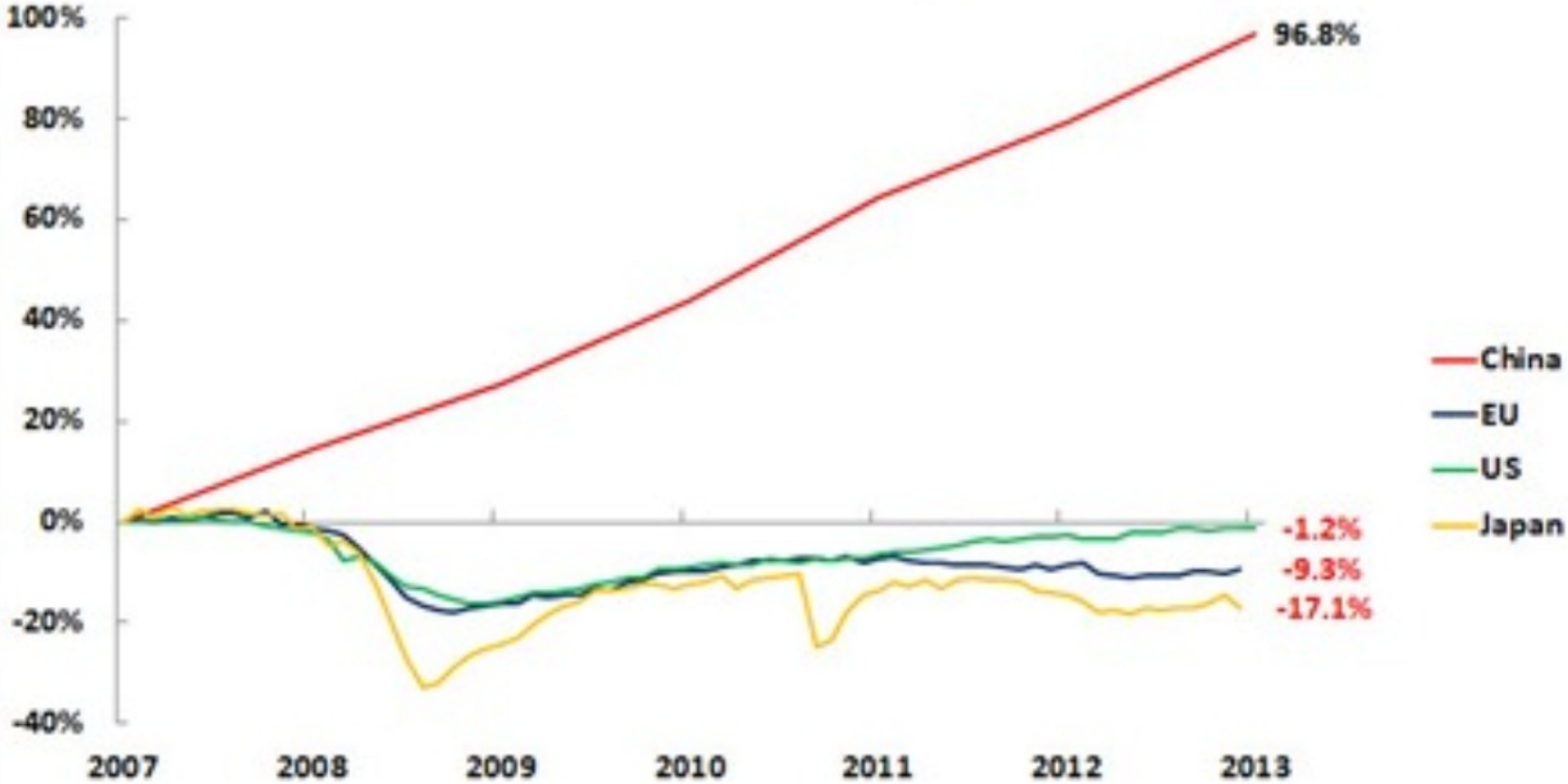
\$ billion at current prices - log scale



Source: Calculated from UN National Accounts

Industrial Production Compared to June 2007

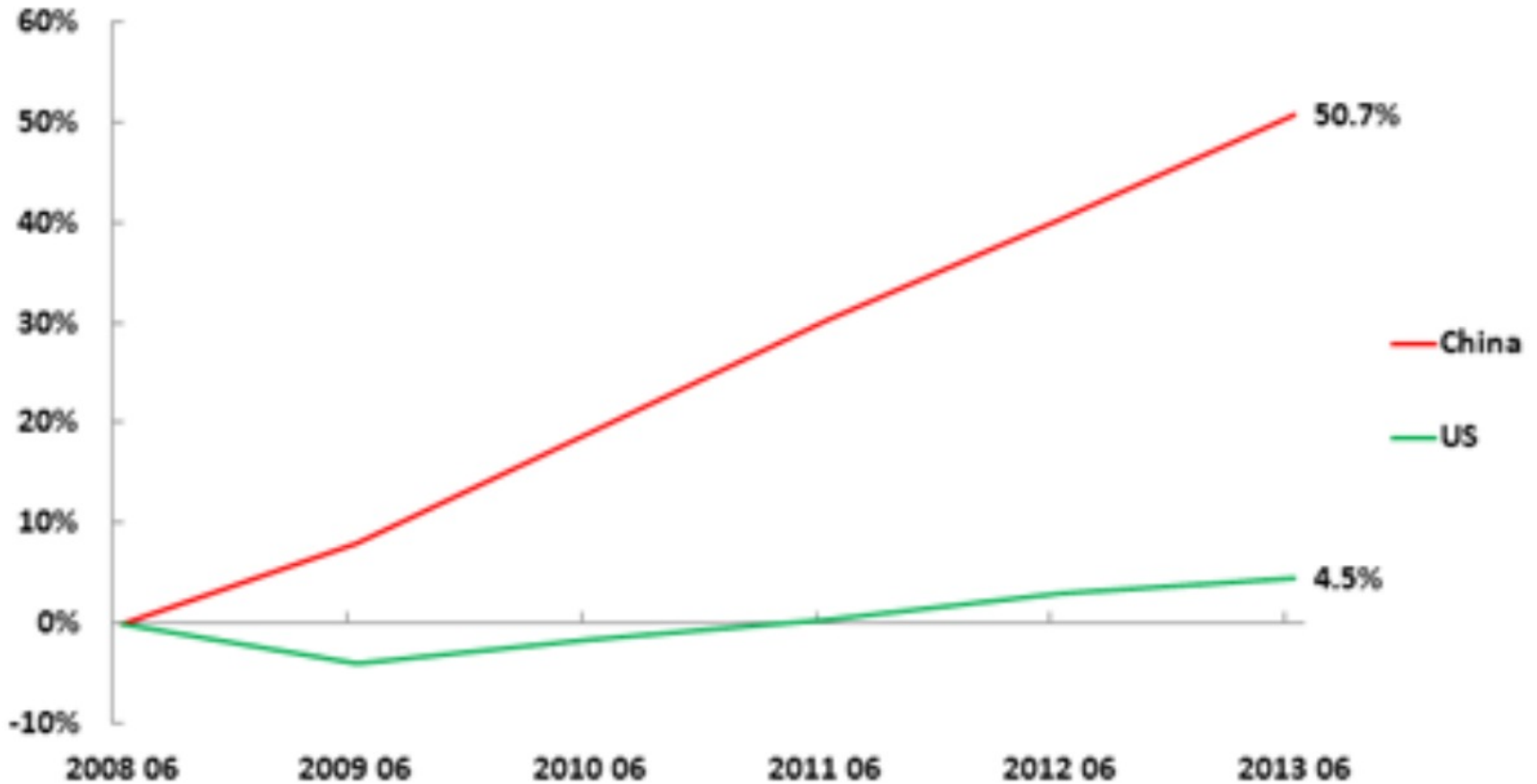
% change



Source: Calculated from US - Federal Reserve, China Trading Economics, EU Eurostat, Japan Ministry of Economy Trade and Industry

% Change in GDP

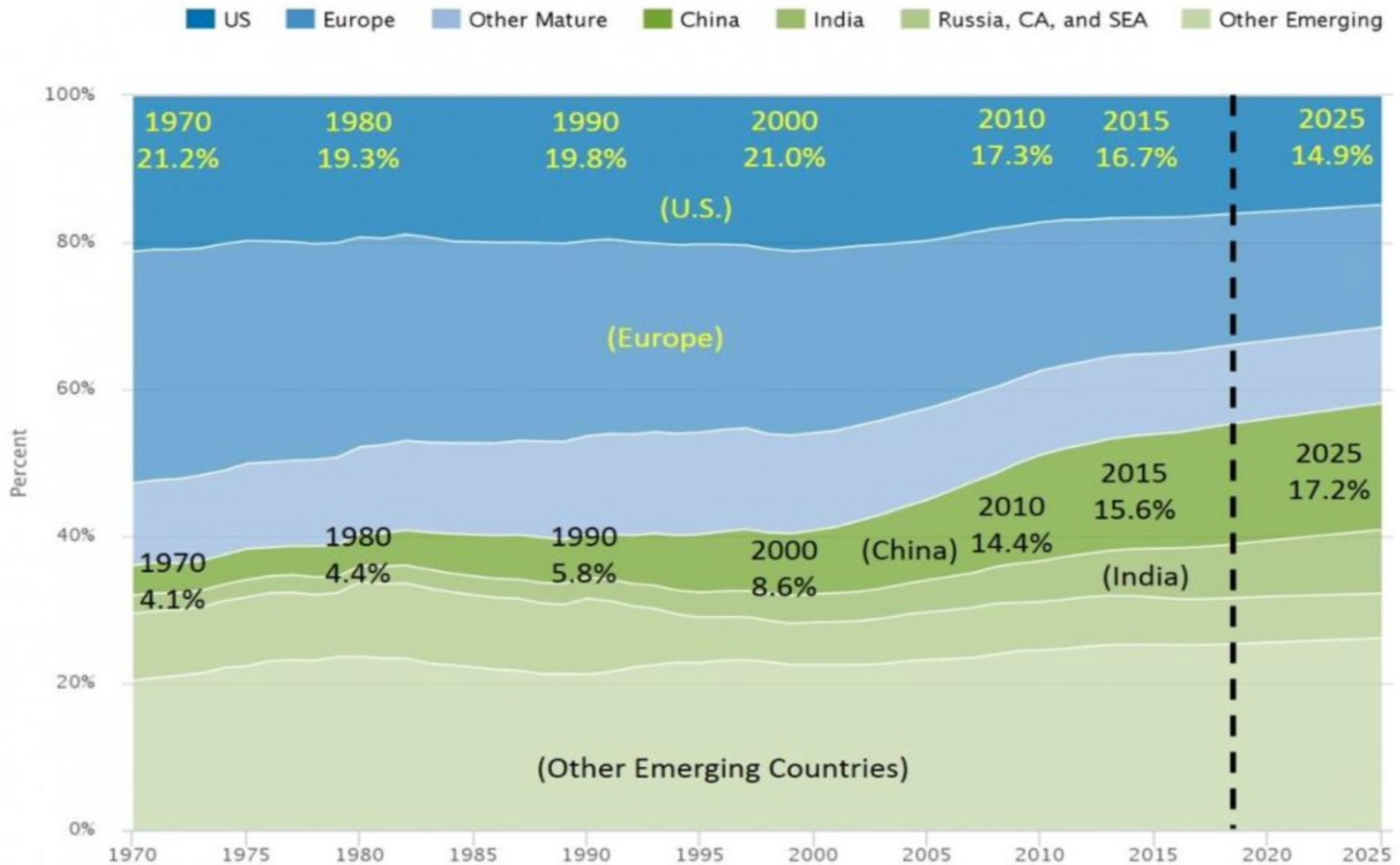
2Q 2008- 2Q 2013



Source: Calculated from US Bureau of Economic Analysis NIPA Table 1.3.3, Trading Economics

When Will China Overtake the American Economy?

Regional Distribution of Gross Domestic Product, 1970-2025

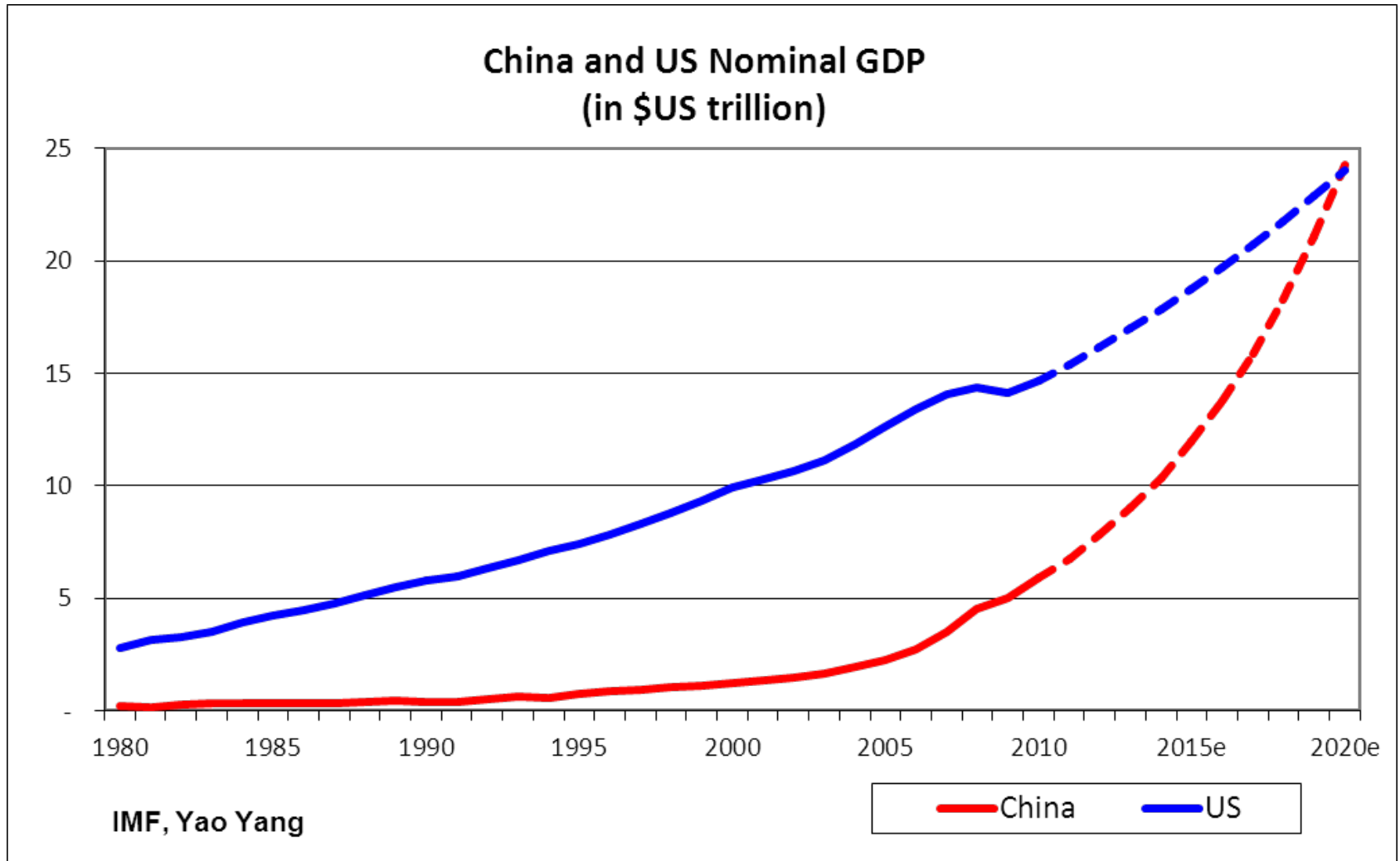


Note: Shares are based on GDP in US\$ at current purchasing power parities.

Europe includes all 28 members of the European Union as well as Switzerland, Norway, and Iceland. Other advanced economies are Australia, Canada, Israel, Hong Kong, South Korea, New Zealand, Singapore, and Taiwan Province of China. Southeast Europe includes Albania, Bosnia and Herzegovina, Macedonia, Serbia and Montenegro, and Turkey.

Source: The Conference Board Global Economic Outlook 2016, February 2016 update and The Conference Board Total Economy Database, € , May 2015

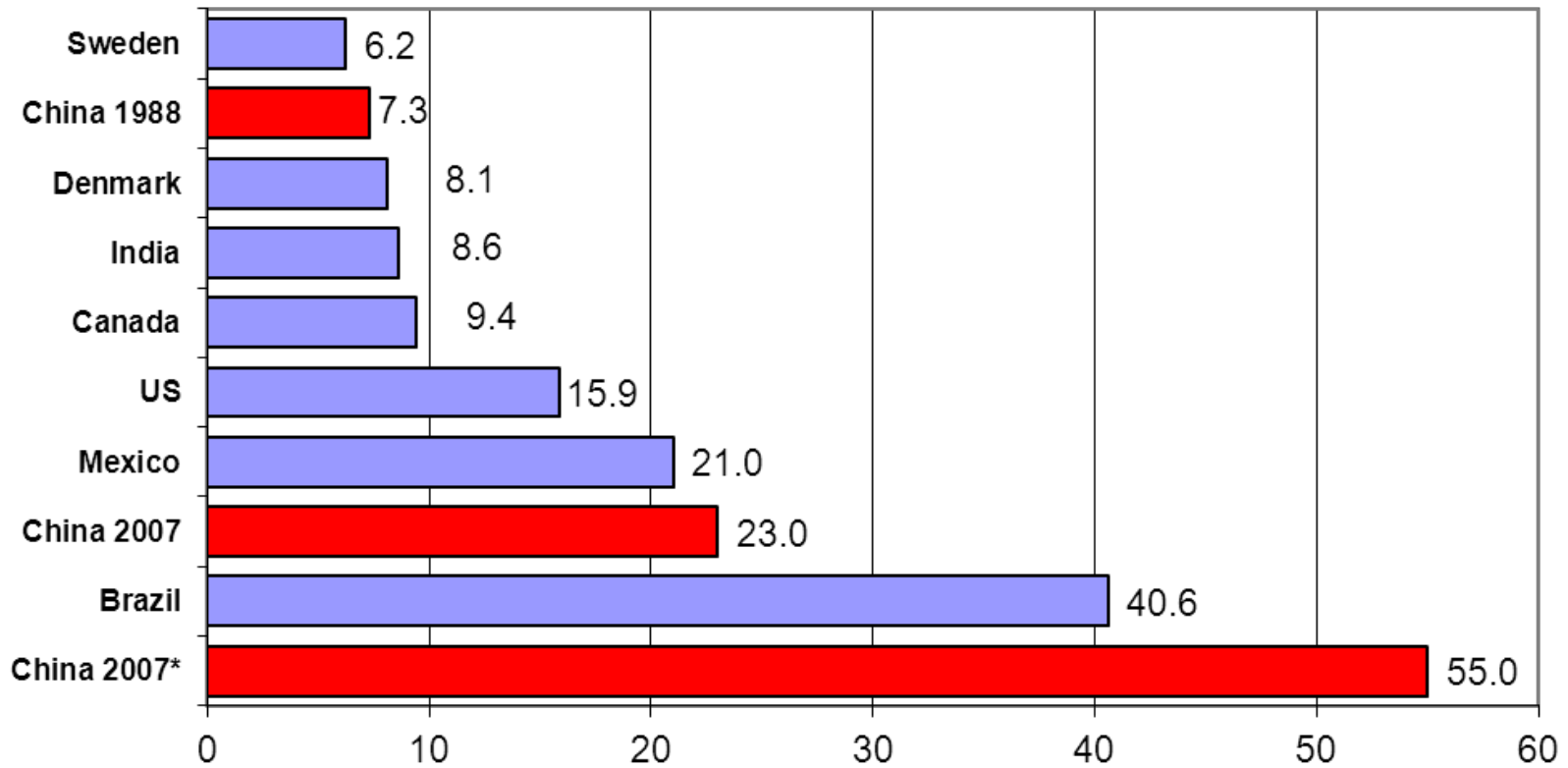
GDP Growth in China



Assumptions made by Yao Yang (China Center for Economic Research, Peking U):
China GDP 8%, inflation 3.6%, RMB appreciation 3%, US GDP 3%, inflation 2%

Uneven Income distribution has become a problem

Income Ratios: Top 10% to Bottom 10%



UNDP, Li Shi, Wang Xiaolou

Economic Weight of China

The Economist

Chinese equivalents

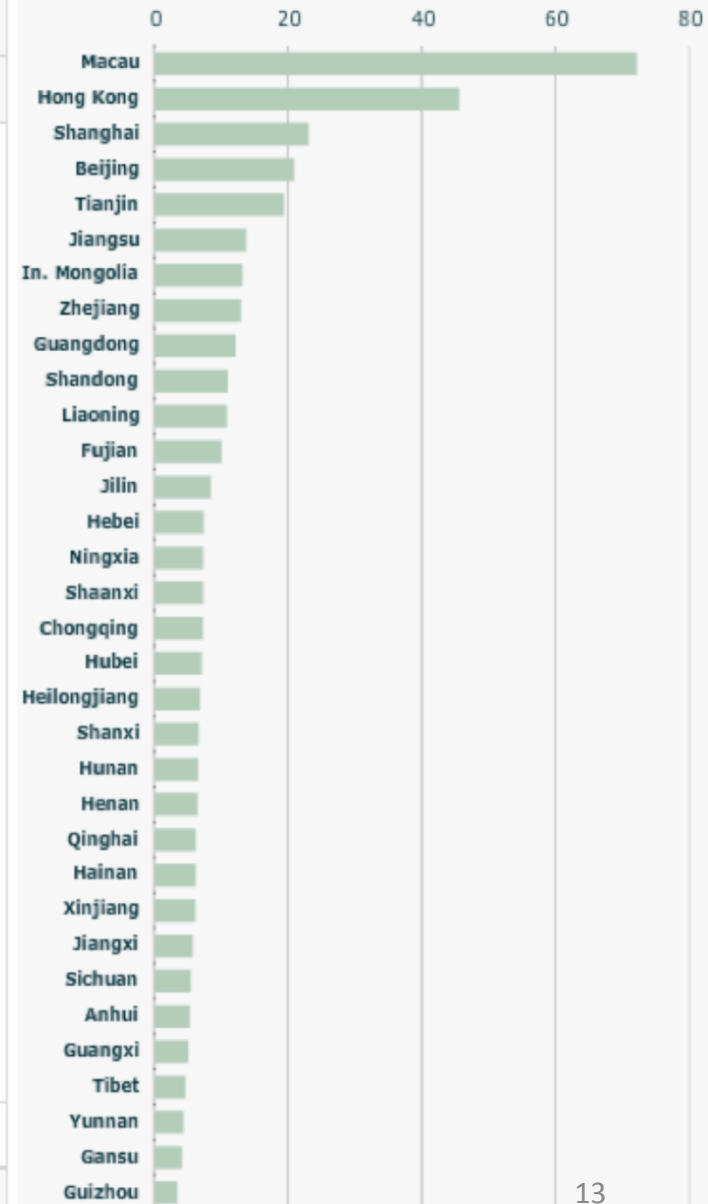
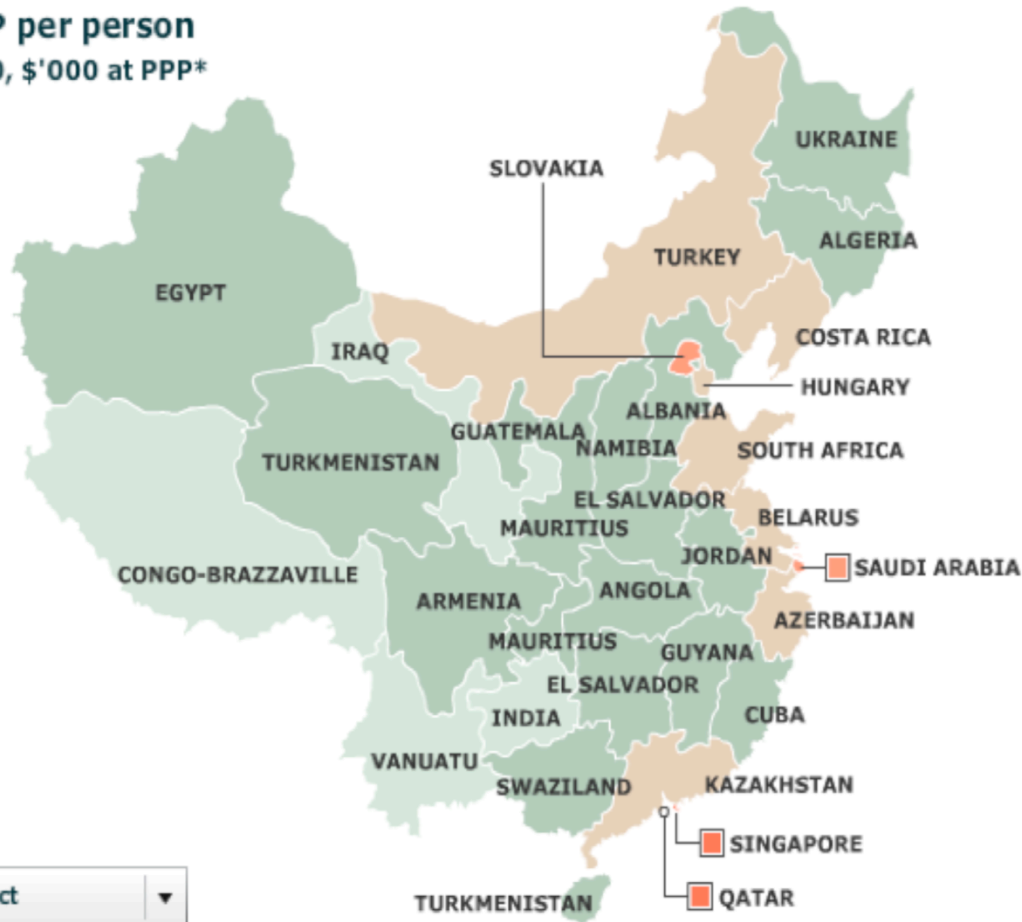
GDP

GDP per person

Population

Exports

GDP per person
2010, \$'000 at PPP*



Sources: Economist Intelligence Unit; CEIC; WTO

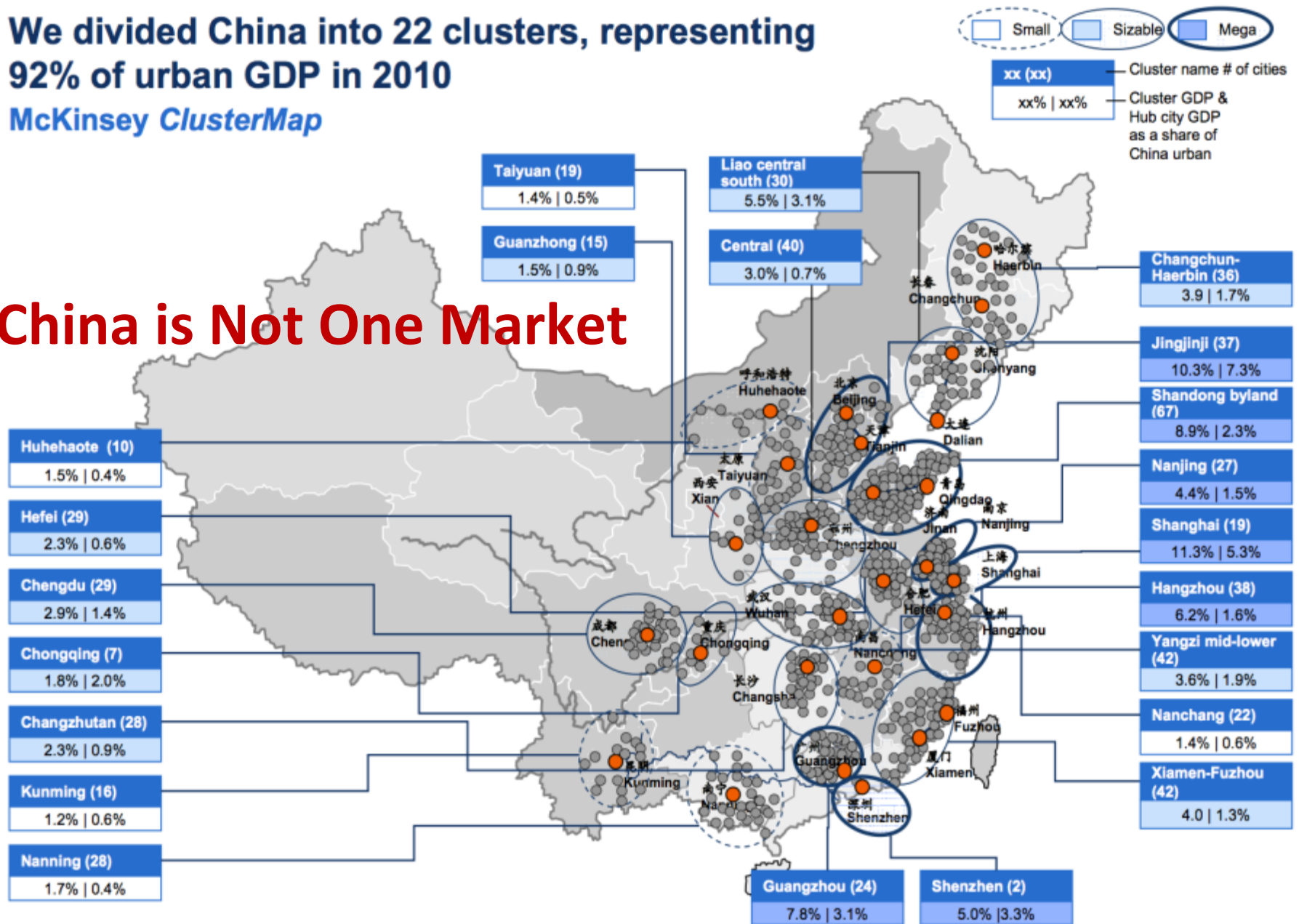
*Purchasing power parity

Embed

We divided China into 22 clusters, representing 92% of urban GDP in 2010

McKinsey ClusterMap

China is Not One Market

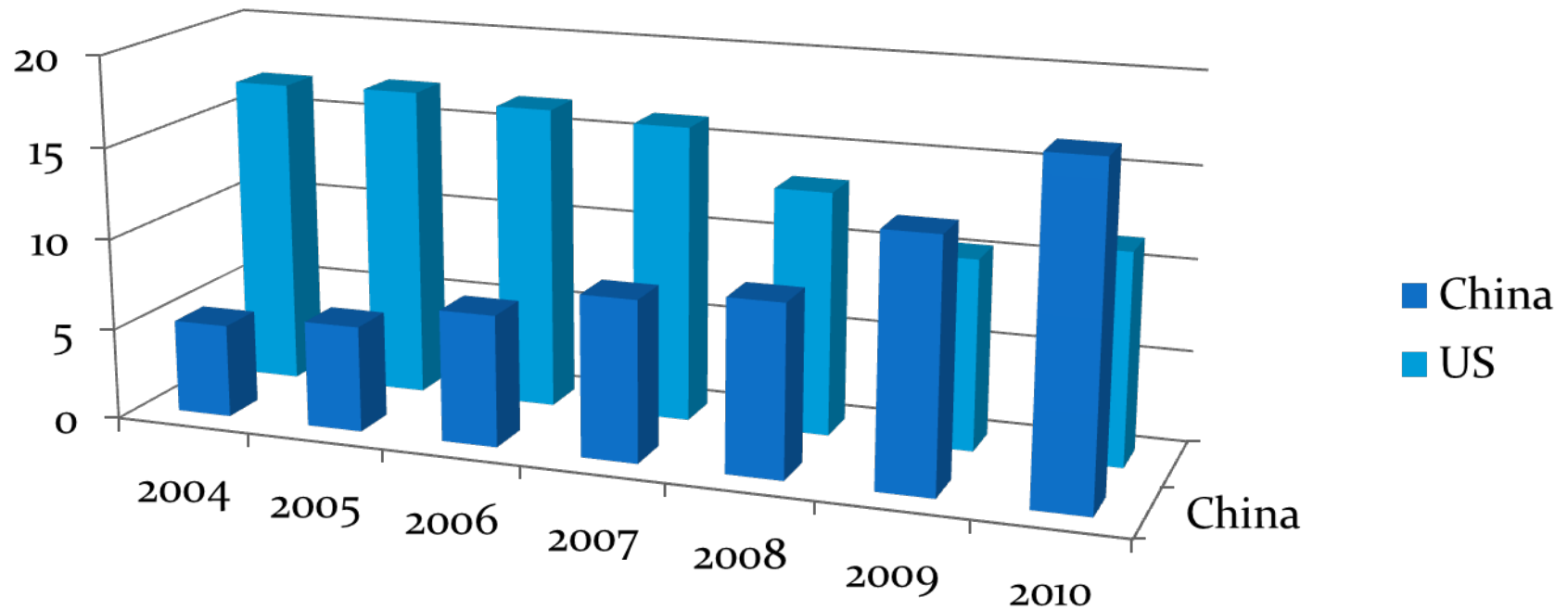


The Emerging Middle Class

- Dramatic expansion in the private sector – aggressive entrepreneurship has produced 2.5 million firms, increasing by some 200,000 per year- providing bulk of employment, tax and overall national growth
- Emerging large and consuming middle class
 - Probably 125+ million now
 - 300+ million with significant discretionary spending power by 2010

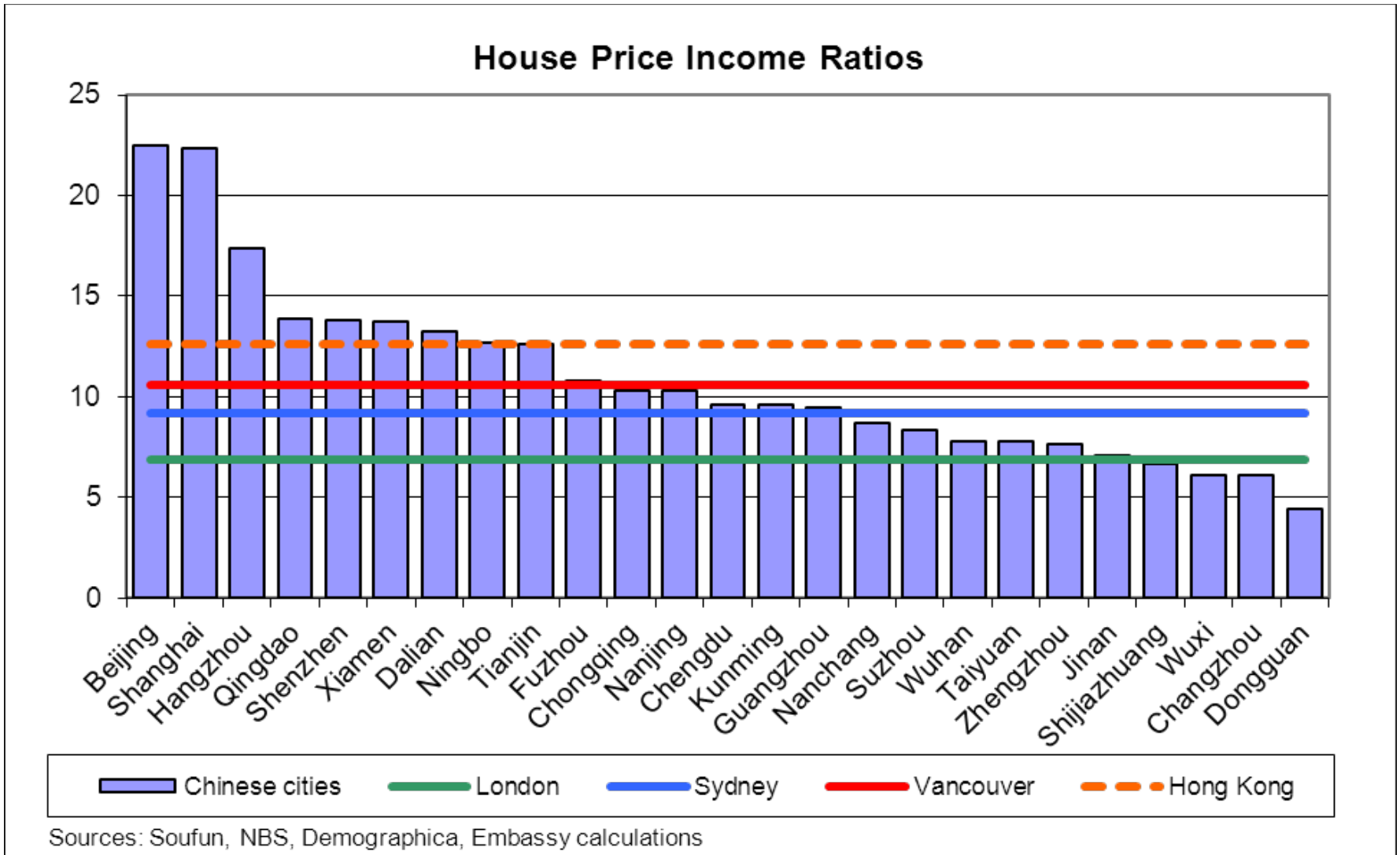
Annual Auto Sales in China and the U.S.

Million Vehicles



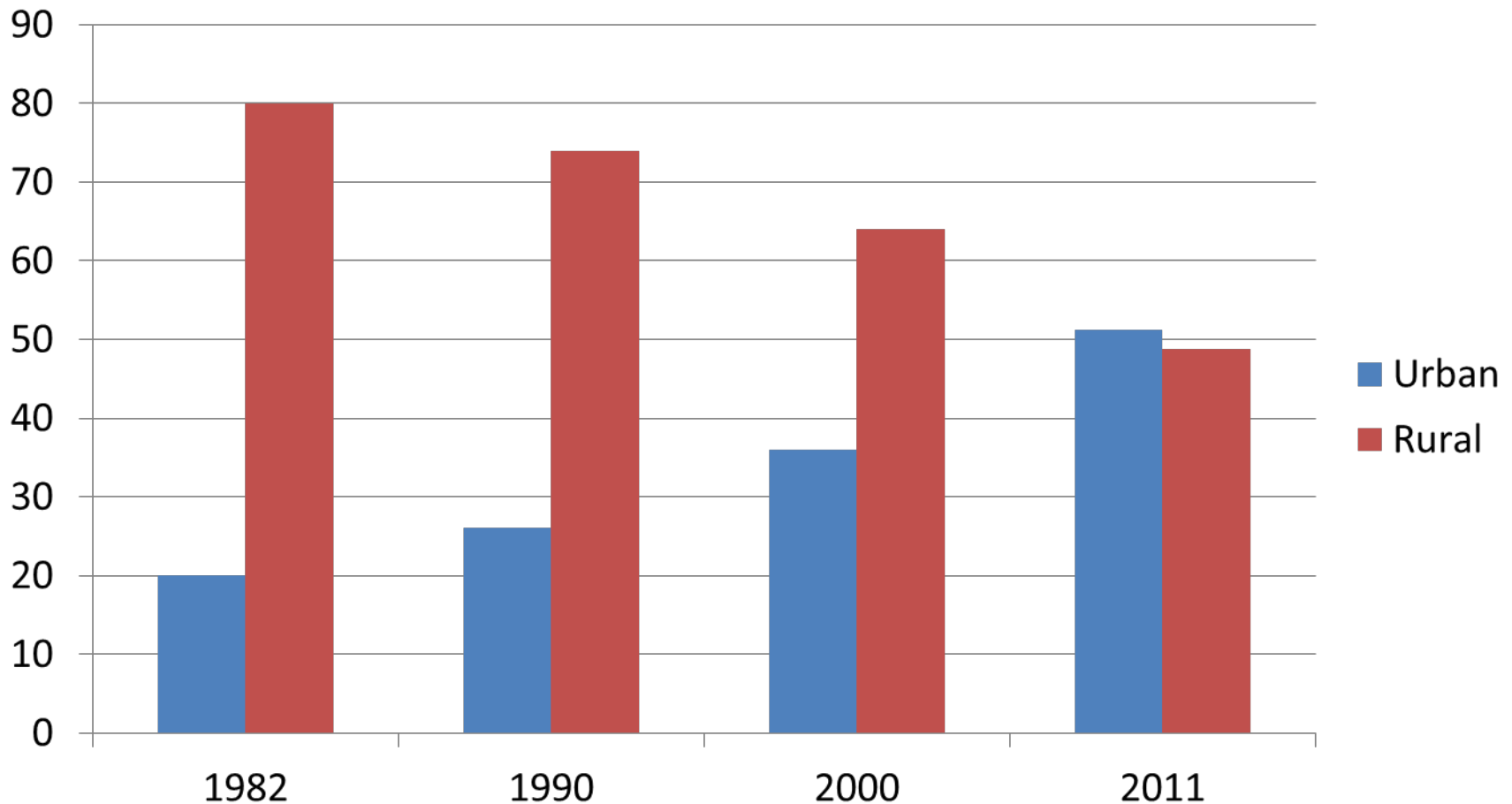
Source: Marklines.com, "Drive toward new Energy," Li Fangfang, p. 10, Economic Outlook 201, China March 2011

Housing Costs Across China, 2015



Source: Embassy of Canada, Beijing, 2015

Trends in Urbanization (percentage of population)



Source: Peter Simpson, "More Chinese live in Cities than in the country side," *National Post*, January 18, 2012

Where China is Today

- Average GDP growth of 9.7% in past 24 years
- World's largest foreign currency reserves (around 4 trillions in 2014)
- World's largest exporter
- Second largest economy by Nominal GDP in 2014 (121th in nominal per capita GDP and 89th and 97th on PPP basis according to IMF and CIA figures in 2013)
- Ranked 28th in global competitiveness in 2016.
- Ranked 118 out of 178 in environmental performance in 2014 by Yale Environmental Performance Index.

China's Growth Sectors

- Automobiles and Clean Energy Vehicles
- Retail and consumer goods industries
- Housing and household electronics
- Entertainment and education
- Aviation, travel and leisure
- Speed rail and logistics
- Renewable Energy and energy conservation
- Environmental , agricultural and manufacturing technologies (& products)
- High-end Equipment Manufacturing
- New materials and IT
- Life sciences products and Pharmaceuticals

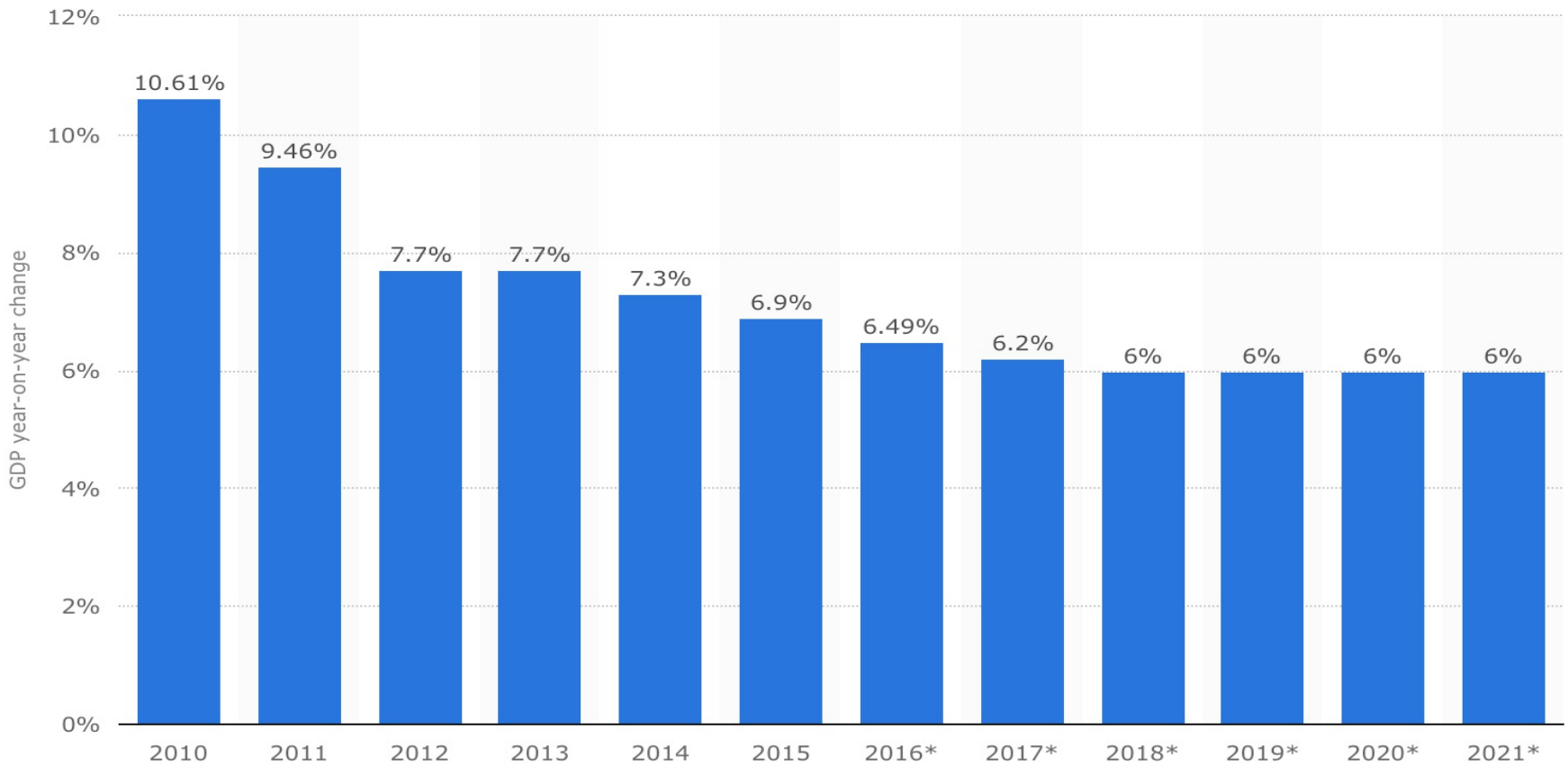
THE NEW NORMAL IN CHINA

Slower growth

China: growth rate of real gross domestic product (GDP) from 2010 to 2021

The graph shows the change in real gross domestic product (GDP) in China until 2015, with IMF forecasts until 2021. In 2012, China's GDP change amounted to about 7.7 percent. That year, the [GDP of China](#) had amounted to 8.9 trillion U.S. dollars.

Show more ▼



Sources of China's Economic Growth, 4th to 12th Five Year Plan (%)

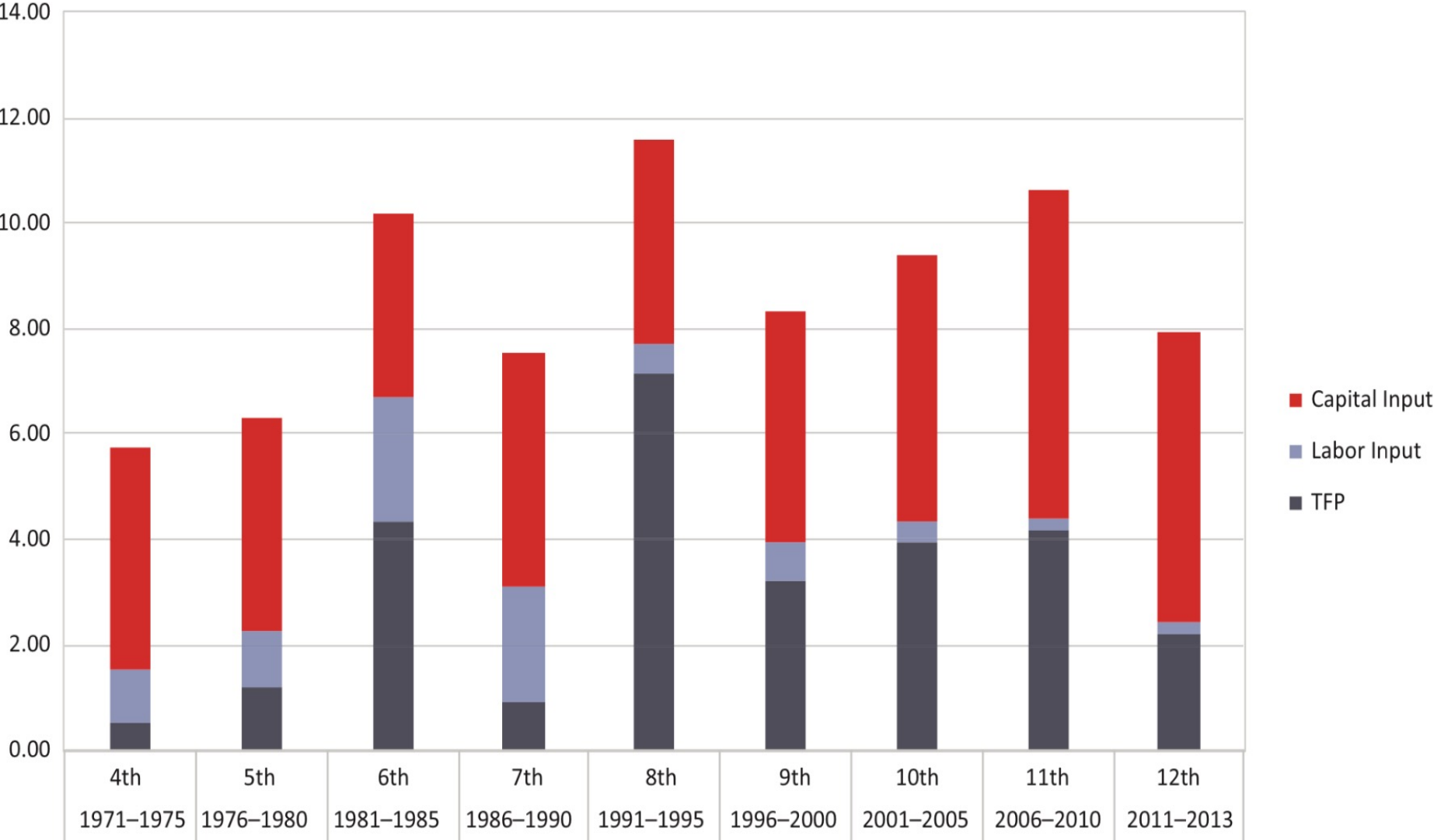
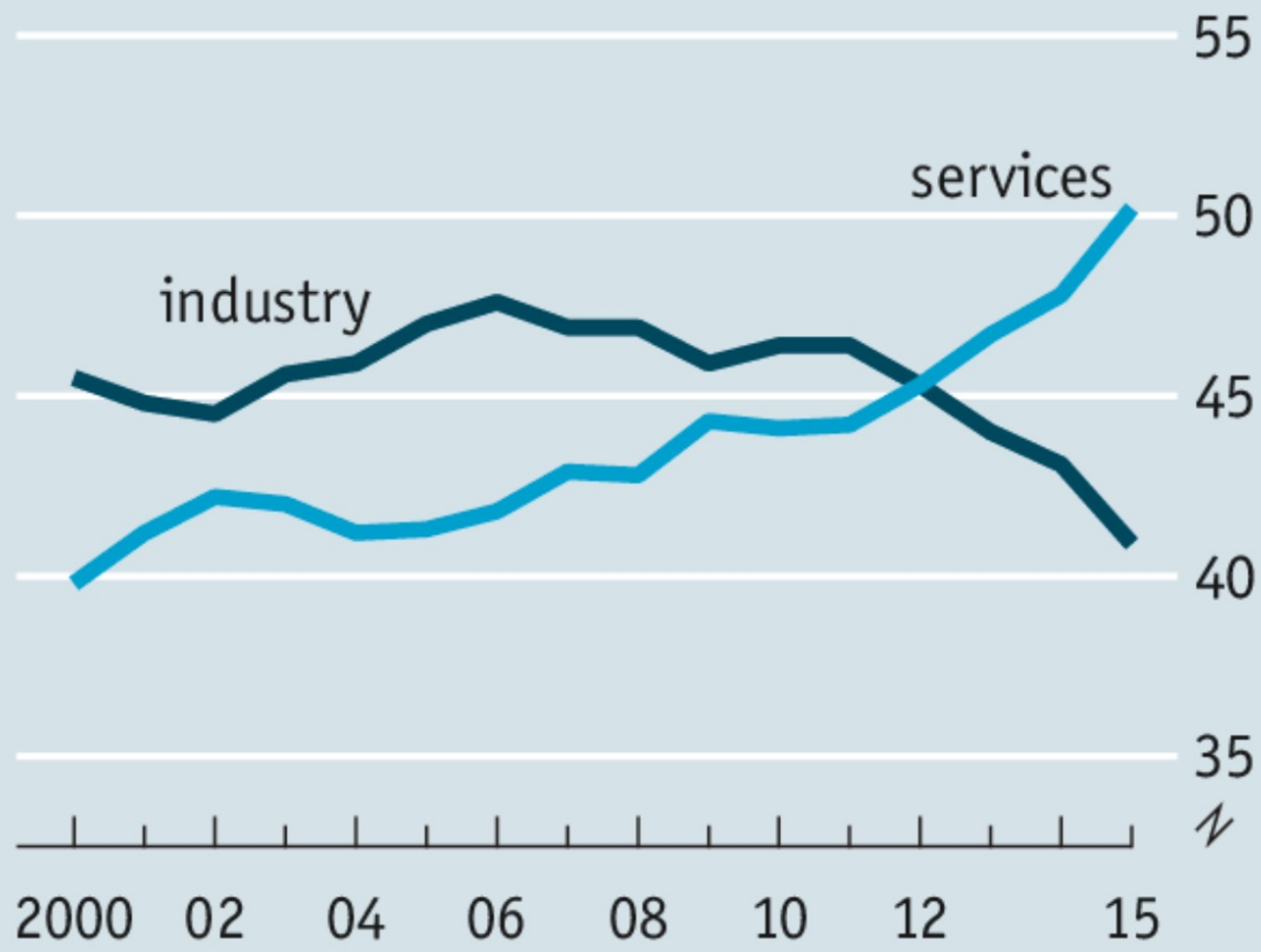


Diagram source: Kenndy and Johnson, *Perfecting china Inc., the 13th Five Year Plan*, Center for Strategic International Studies, May 2016, Figure 2.1, p.4

China, share of GDP from:

%

Rising Dominance Of the Service Sector



Source: Wind Info

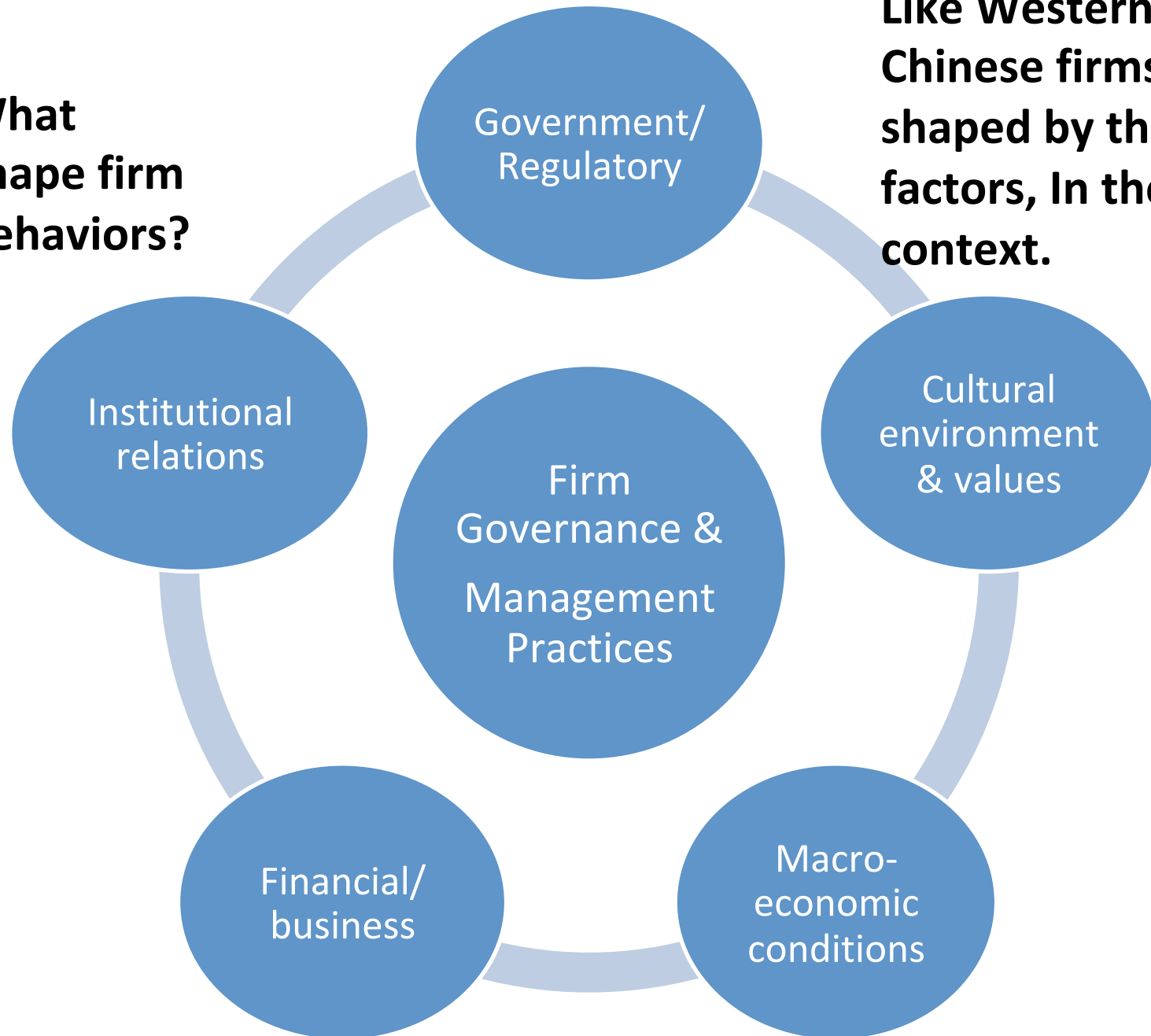
Source: *Economist*, "Popular Discontent," Dec 10-16th, 2016, p.43.

CHINA'S GEOGRAPHICAL CONSTRAINTS & VULNERABILITY



1. KUWAIT
2. BAHRAIN
3. QATAR
4. UNITED ARAB EMIRATES
5. TURKMENISTAN

**What
shape firm
behaviors?**



**Like Western firms,
Chinese firms are
shaped by the same
factors, In their own
context.**

Western Complaints about Chinese Business Culture

- Longer time scales
- Objective data and Information hard to get
- Performance management system unclear
- Incentive system not based on performance
- Financial management systems designed to monitor not to exercise control and provide information
- Paternalistic organizational culture
- Not used to working on tight schedule and cost constraints
- Indirect Communications style
- Rules are unclear & too many changes
- Planning and priority setting not followed
- Non-transparent commercial and legal cultures
- Rely too much on Guanxi

Chinese Complaints of Western Business Culture

- Too rigid and inflexible
- Too straight forward (not diplomatic enough)
 - Too rule-bound
 - Ask for too many details
 - “Slow” to make decisions
 - Inefficient government
- Too impersonal (do not care to build personal relationship)
- Too impatient (short in-country visits and rush to results)
- Do not understand Chinese hierarchy and culture.

Source: compiled by E. Wong

UNDERSTANDING THE STYLIZED CHINESE FIRM (SOE)

governance

- Authoritarian or top down Decision making model – though power now shared within board sometimes
- Collective Management culture – consensus within middle-management
- Senior SOE managers are appointed by “Organization Department” of CPC
- Lack (or do not value) transparency and formal processes
- Personal factors play a large role in many management and investment decisions

Incentive & performance systems

- SOE managers are rewarded for attaining “national goals” during tenure
- Bureaucratic Promotions prospects are important to SOE top managers
- Subjective and collective performance assessment
- Avoidance of personal risks and accountability

Business cultural

- Government centric
- Non-trusting of outsiders – value Guanxi
- Less rigid and legalistic than the West
- Speed is a key efficiency metric
- Accept and expect institutional ambiguity

Source of Funds

- Commercial bank loans – nature maybe more important than the return of projects
- Private equity or internal funds
- Institutional banks - preferential interest rates
- Finance companies – rates of return, but constraints on investment types

China's Political Structure and Government System



China Pictures.org

Starting Points

- China defines itself as a Socialist state under the Leadership of the Chinese Communist Party (CCP) – the political commissar system i.e. administrative positions are paired with political ones.
- The modern state was created by a revolution out of a multi-ethnic, multi-cultural “empire” – characterized by Regionalism, cultural & linguistic differences, centrifugal tendencies, and authoritarian political culture.

Key Political Principles in China

1. The CCP is the sole political party in power – traditions of authoritarianism and paternalism.
2. The socialist system is led by the working class with an alliance of workers and farmers.
3. All power belongs to the people who exercise it through the National and Local People's Congress.
4. The state is to pursue “socialist modernization drive along the road of building socialism with Chinese characteristics” – State Capitalism & China Inc.
5. Democratic centralism and the rule of law – collectivism & paternalism, & acceptance of Authority.
6. The armed forces belong to the people, not the “state” - Army run by CCP.
7. Equality among all ethnic Groups.

Citizens' Rights and Responsibilities

1. All citizens are equal before the law.
2. The right to vote and stand for election
3. Freedom of speech, thought, correspondence and religious belief
4. Inviolable freedom of the person
5. The right to criticize and make suggestions
6. The right to compensation, to work, and to receive welfare & education
7. Equality of men and women
8. Obligations to perform military services & pay taxes in accordance with the law and practice family planning.

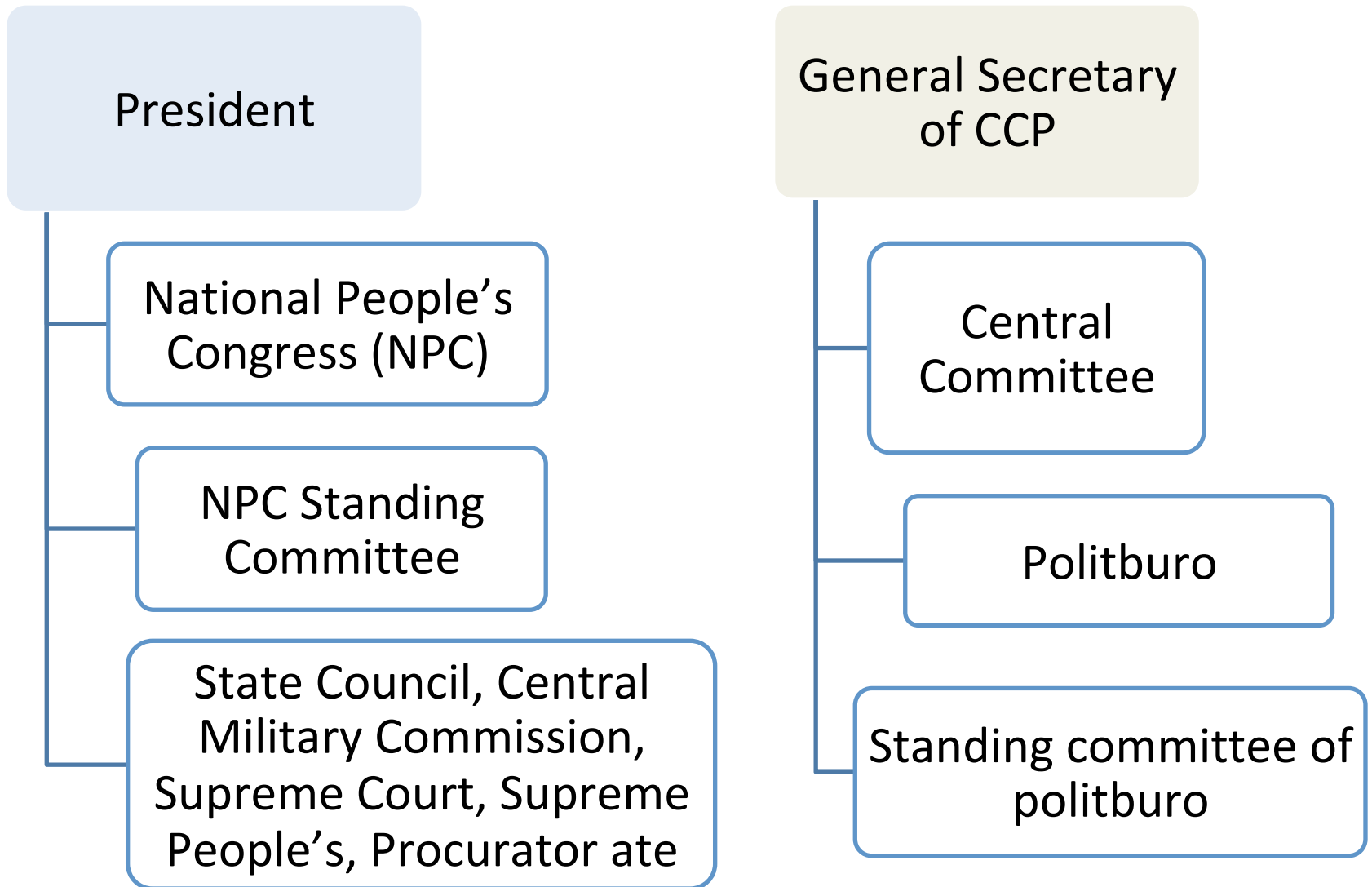
Structure of the Chinese State

- The Chinese Government is subordinate to the Chinese Communist Party (CCP); its role is to implement party policies. The primary organs of state power are the National People's Congress (NPC), the President, and the State Council.

Structure of CCP

- Theoretically, the party's highest body is the Party Congress, which meets at least once every 5 years. The primary organs of power are:
- The Politburo which consists of 25 full members with a 7-member Politburo Standing Committee;
- The Secretariat, the principal administrative mechanism, headed by the General Secretary;
- The Military Commission; and
- The Discipline Inspection Commission, which is charged with rooting out corruption and malfeasance among party cadres.

China's Political System

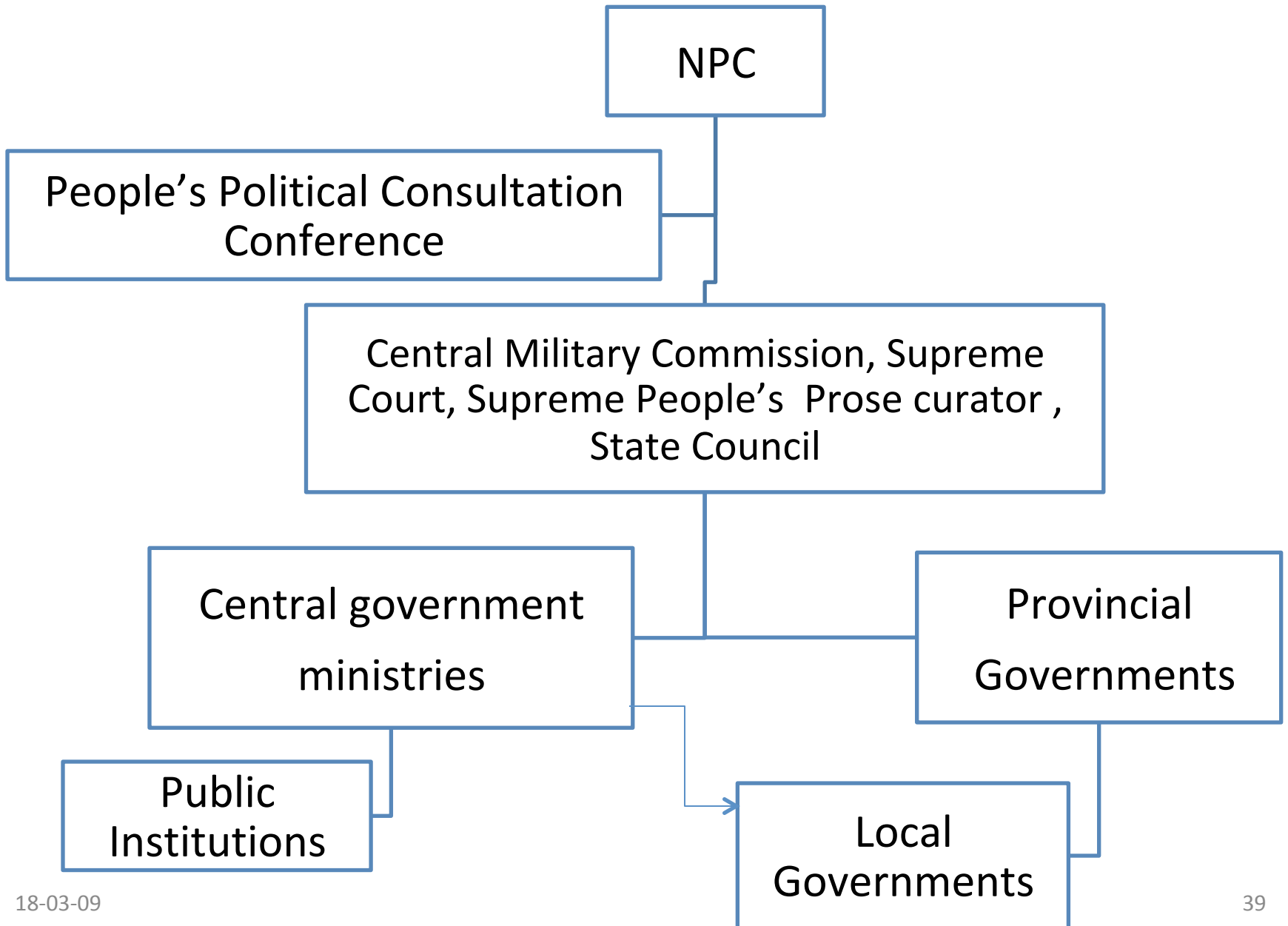


The National People's Congress (NPC)

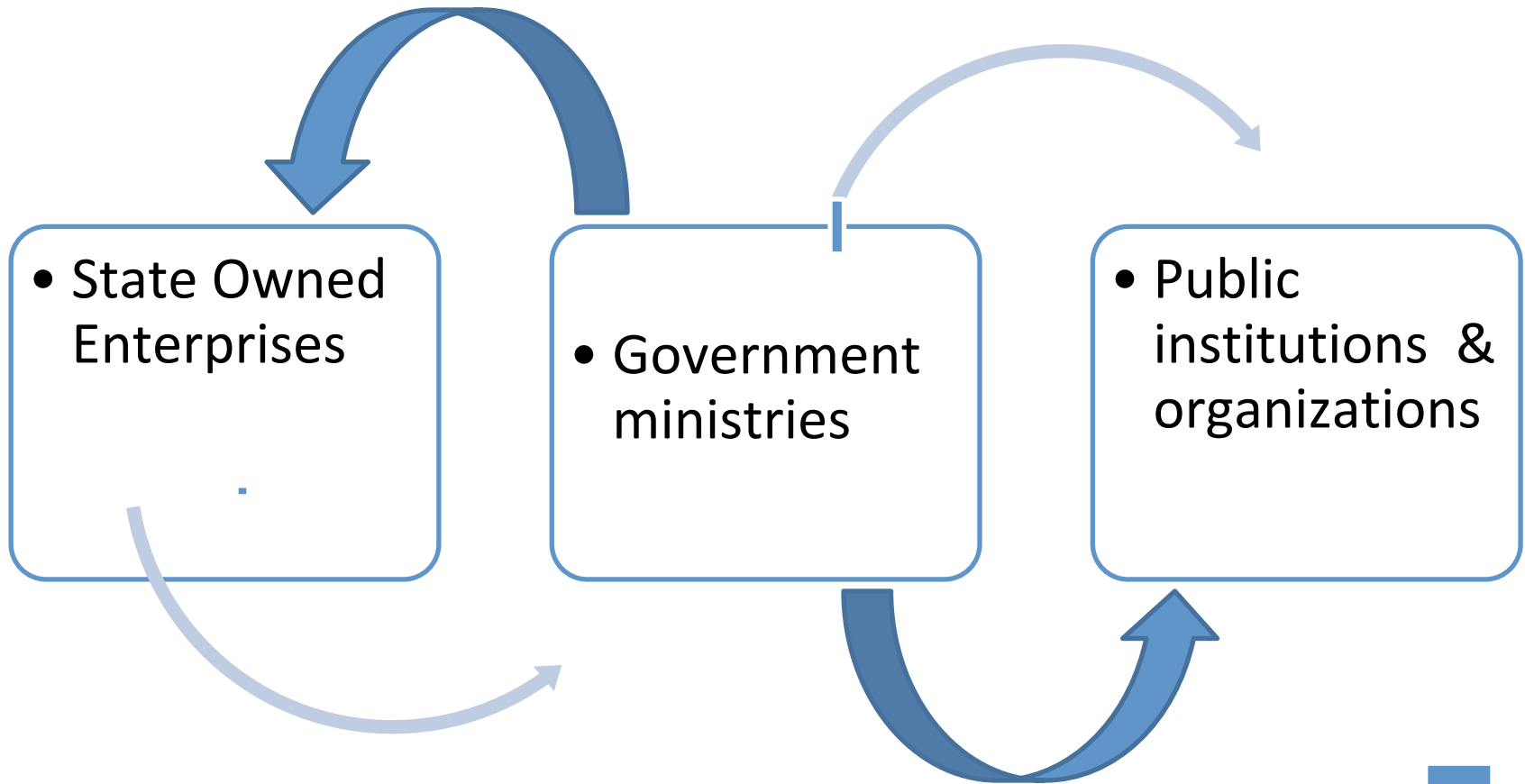
- Under the Chinese Constitution, the NPC is the highest organ of state power in China. It meets annually for about 2 weeks to review and approve major new policy directions, laws, the budget, and major personnel changes. These initiatives are presented to the NPC for consideration by the State Council after previous endorsement by the Communist Party's Central Committee.

- Although the NPC generally approves State Council policy and personnel recommendations, various NPC committees hold active debate in closed sessions, and changes may be made to accommodate alternate views.
- When the NPC is not in session, its permanent organ, the Standing Committee, exercises state power.

Government Structure



Potential Career Paths in the government Sector



Composition of the State Council

- Members of the State Council include the Premier, a variable number of vice premiers (now four), five state councilors (protocol equal of vice premiers but with narrower portfolios), and 29 ministers and heads of State Council commissions.


State Council Responsibilities

- Promulgate administrative regulations and rules in accordance with the Constitution;
- Introduce motions to the NPC and its standing committee;
- Oversee and guide the work of ministries and other state matters excluded from ministries' jurisdictions;
- Allocate work among the central and local governments and oversee national administration;

- Prepare and implement economic/social development plans and state budget;
- Examine, nominate, and/or remove government officials (input from the CCP's organizational department);
- Promote economic development;
- Administrate ethnic affairs - ensure equality and regional autonomy of ethnic nationalities;

- Responsible for international relations, and diplomatic & treaty matters;
- Reconcile and eliminate conflicting rulings from out by local/ministerial authorities;
- Imposition of martial law in designated areas in periods of emergency; and
- Handle other responsibilities as empowered by NPC or its standing committee

Legislative Process

- 
- Research and consultation by State Council
 - Recommendations and draft laws from State Council
 - Promulgation of Law by NPC
 - Administrative and Clarifying Regulations by State Council
 - Implementation rules at central or local Ministries

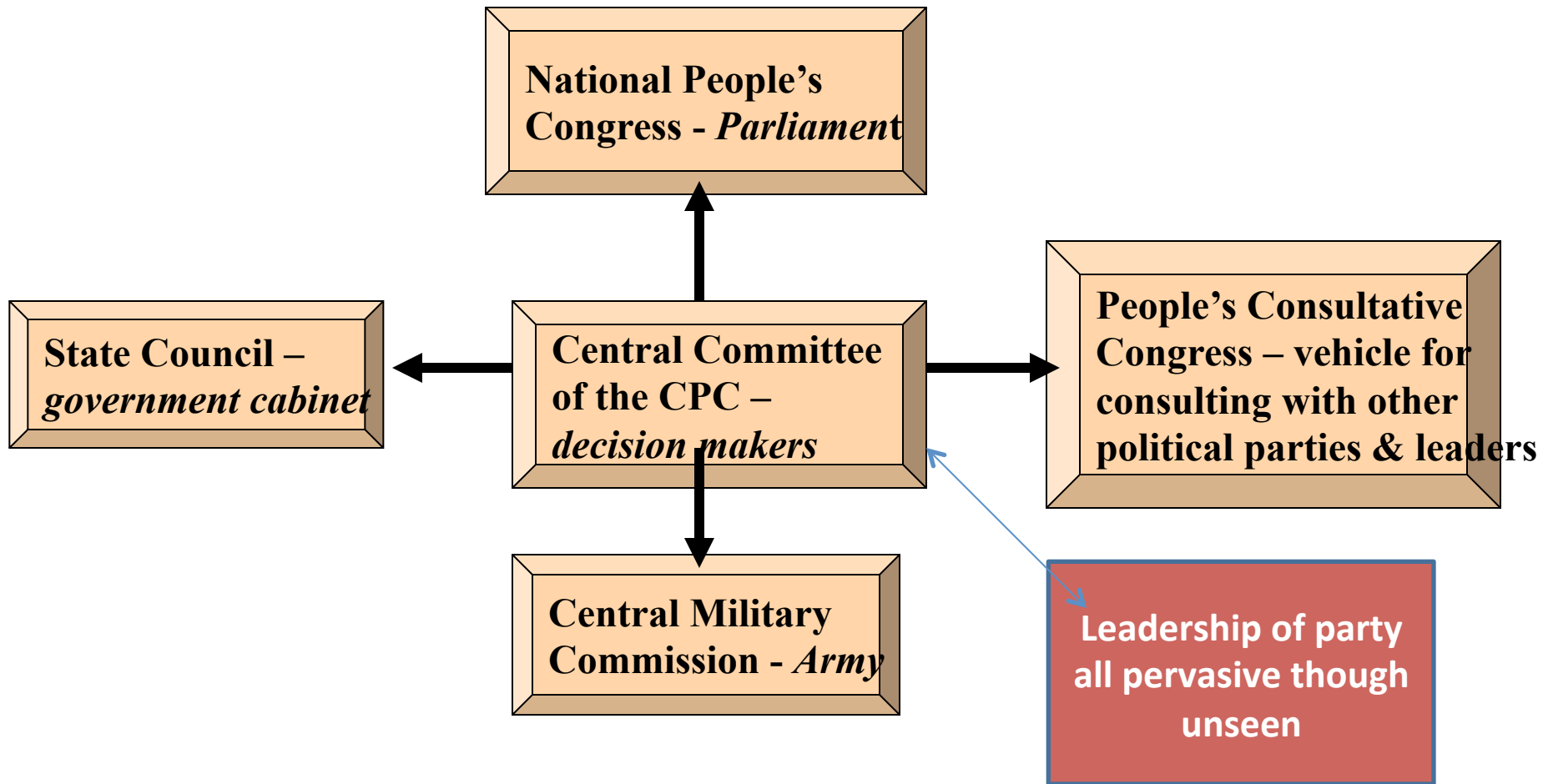
The Political Consultation Conferences

- The Political Consultation Conferences are fora for political consultation and cooperation between the CCP, interest groups, and other political parties (and representatives of interest and community groups) at both the central and local levels.

Political Parties in China

- Chinese Communist Party (CCP)
- Chinese Democratic League
- Revolutionary Committee of the Chinese Kuomintang
- Chinese Democratic Nation Construction Association
- Chinese Association for Promoting Democracy
- Chinese Peasants' and Workers' Democratic Party
- China Zhi Gong Dang
- Jiusan Society
- Taiwan Democratic Self-Government League

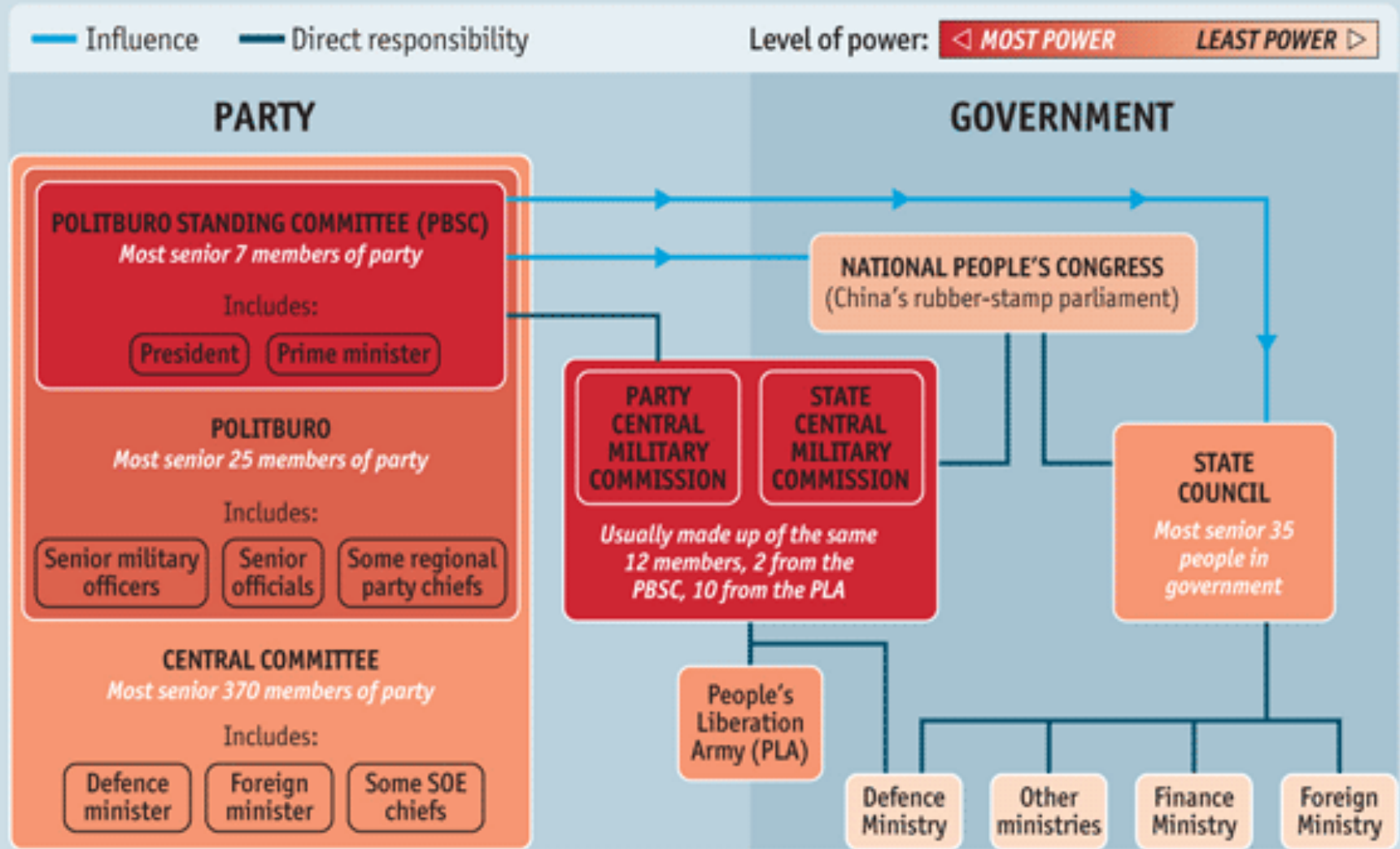
Understand Chinese government: The Role of the CPC



Source: American Chamber of Commerce PRC

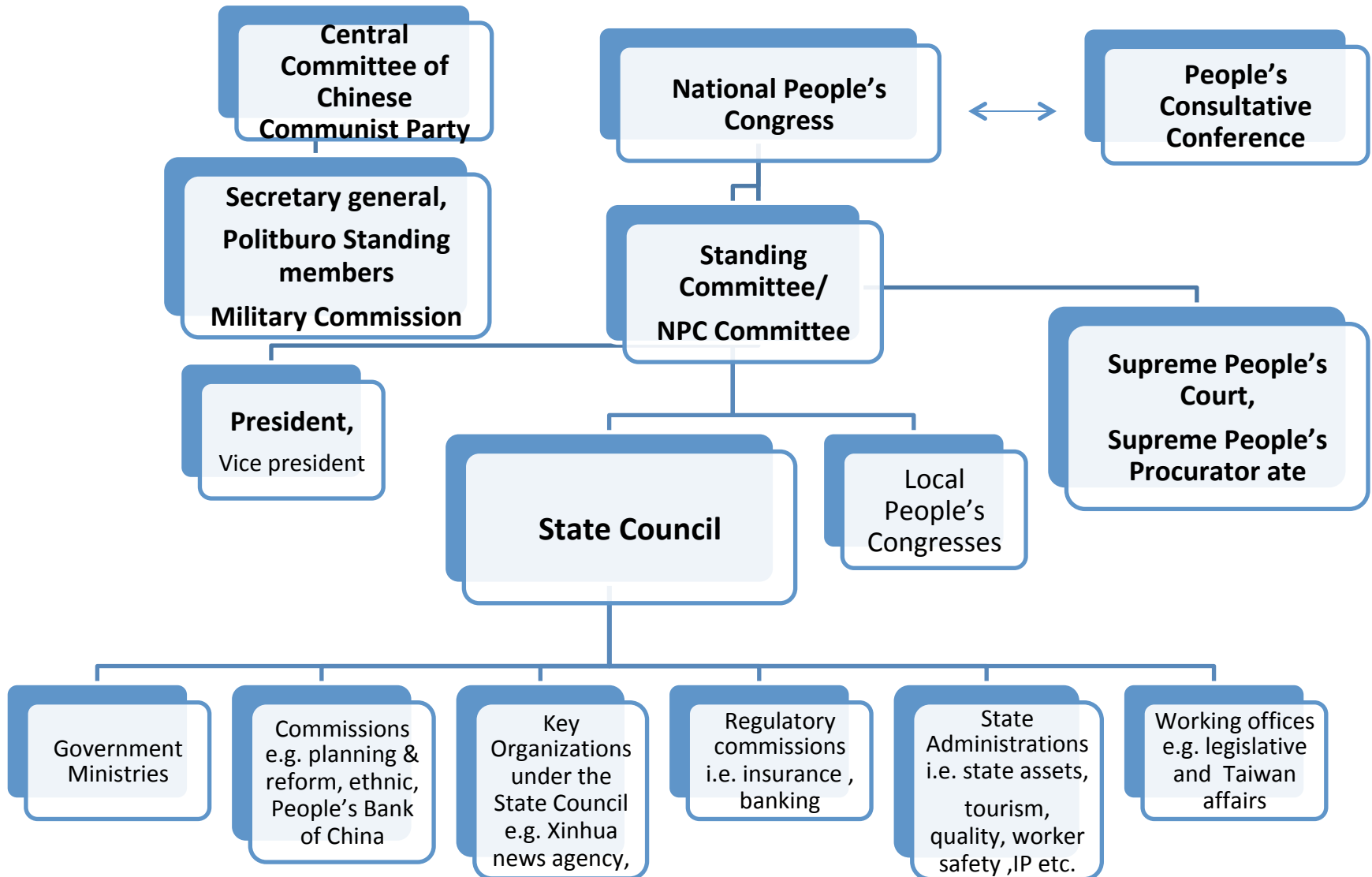
Who's in charge?

The main links between organs of power

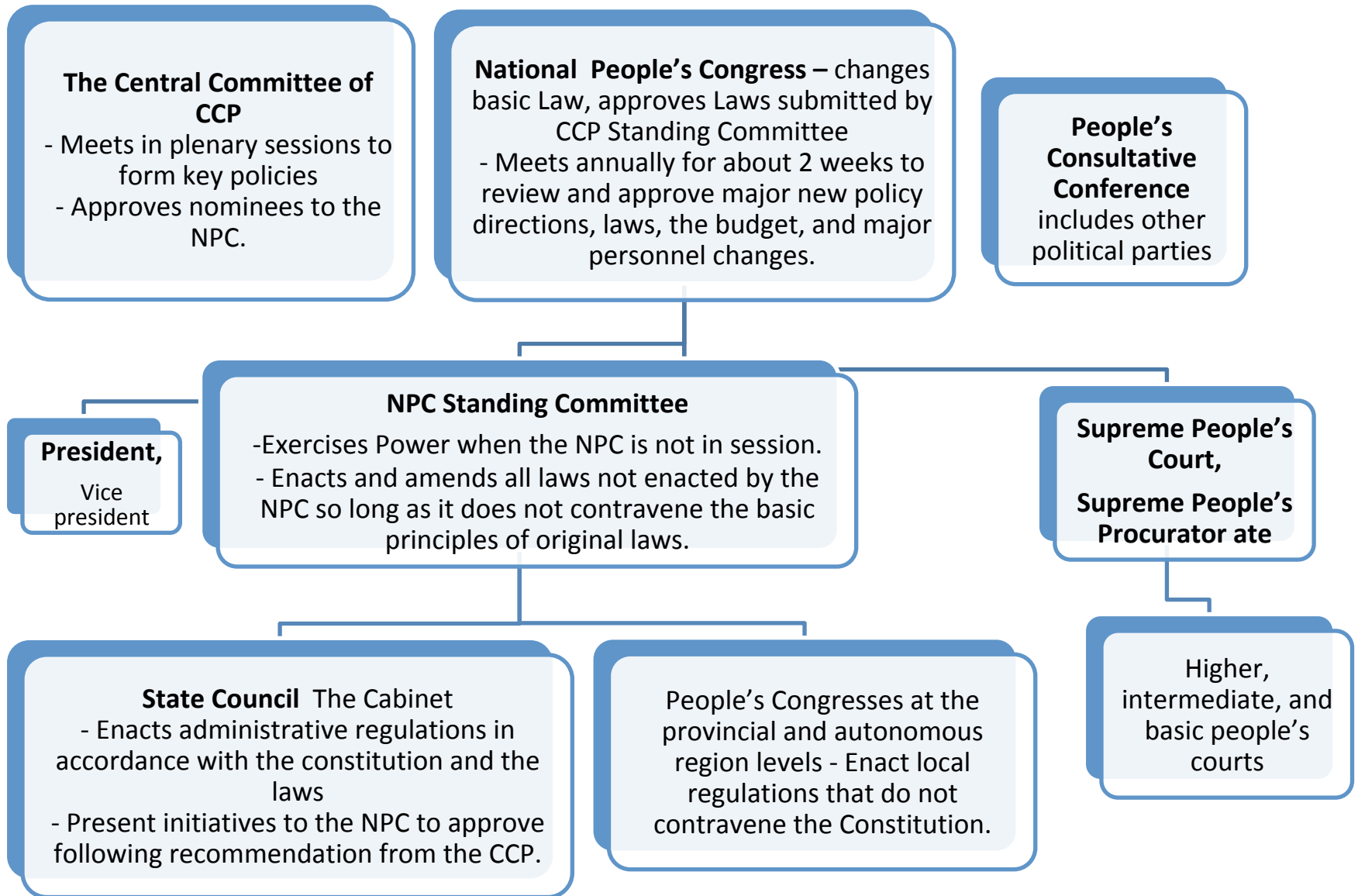


Source: The nomenklatura, Vertical meets horizontal, Who really holds the power in China? Dec 1st 2012 | BEIJING | from the print edition

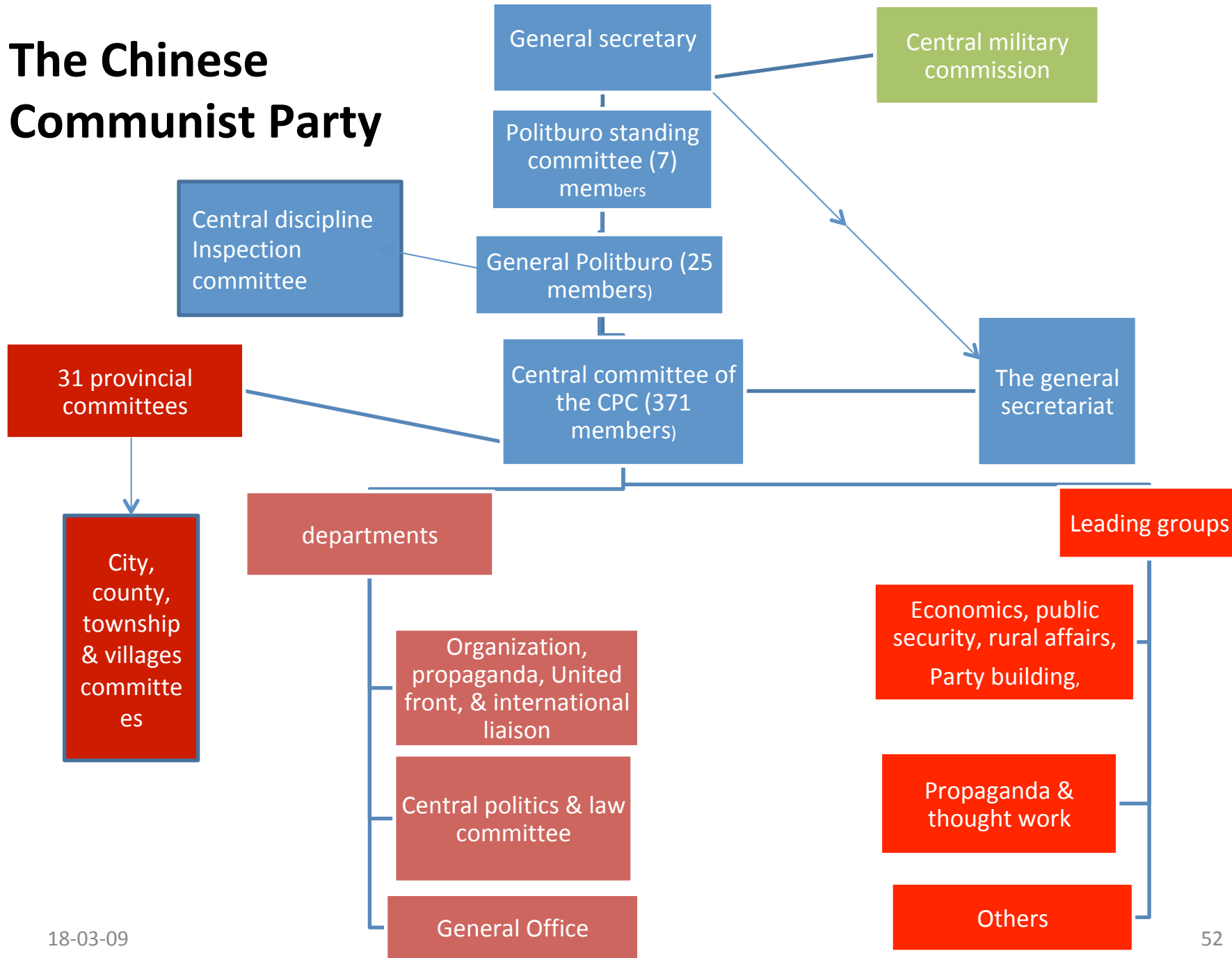
Structure of Chinese Government



Organizational Mandates & Functions



The Chinese Communist Party



Everything is subject to the “leadership of the party” which is enshrined in China’s constitution, though the party is not legally registered in China.

Party membership is seen as a mark of excellence and passport to a better job.

Other Political Parties in China

- China Revolutionary Committee of the Kuomintang
- China Democratic League
- China Democratic National Construction Association
- China Association for the Promotion of Democracy
- Chinese Peasants' and Workers' Democratic Party
- China Zhi Gong Dang
- Jiusan Society
- Taiwan Democratic Self-government League

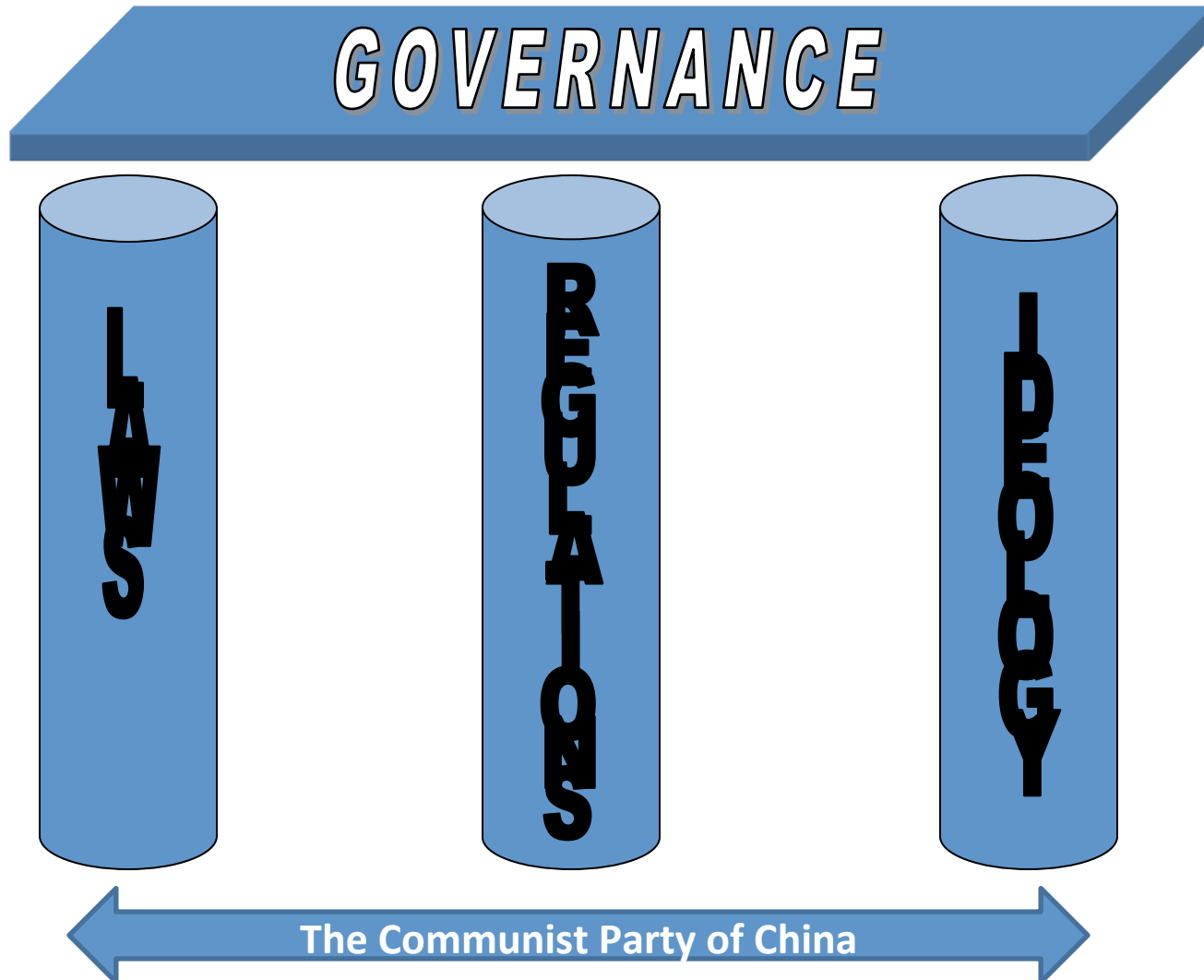
Role of other Parties

- The eight other political parties are independent organizations and enjoy political freedom, organizational independence and are legal equality under the Constitution are not opposition parties. They perform a consultative role and are “partners” in the discussion and administration of State affairs i.e. the chairmen of the eight political parties are now vice chairmen of Standing Committee of NPC and vice presidents of the Chinese People's Political Consultative Conference.

The Rule of Law

- Lack of Western tradition of “rule of law” and religious sanctions
- The Confucius tradition i.e. hierarchical and authoritarian social structure
- The mandate from heaven and the benevolent ruler
- Legal system in development
- A unitary state with latitude for local interpretation of laws and regulations
- Laws passed by the NPC must be supported by implementation regulations for implementation

Understand Regulatory Environment



Source: Adapted from American Chamber of Commerce PRC

Key reform Measures announced at the Third Plenum (policy Issues) of the 18th CPC Congress

- Relax investment restrictions and expand construction of free trade zones (FTZ) in inland and border areas.
- Accelerate globalization by easing capital inflows and outflows
- Deepen economic reform to ensure a "decisive" role for the market in allocating resources while retaining a dominant role for state ownership.
- The Communist Party of China (CPC) will strengthen its leadership role with a central leading team for "comprehensively deepening reform".
- Further reforms of the administrative system through innovative administrative methods enhancing the credibility and effectiveness of government through a law based, service oriented government.
- Fiscal system reforms to improve budget management, match between local spending and expenditures, and transparency.
- Establish a state security committee to improve social governance and safeguard the interests of the people enhancing social stability

Highlights of the Fourth Plenum (Party Governance) of the 18th CPC Congress

- Build a country with “Social Rule of Law with Chinese Characteristics”
- Ensure CPC leadership in such country
- Strengthen implementation of the constitution; promote administration by law and awareness of the public; build a law-abiding government and society; safeguard social justice; and sharpen CPC leadership in promoting the rule of law.
- Rule the country in line with the constitution and promote government transparency.
- Protection of human rights.
- Set up mechanism to monitor and supervise officials.
- China will recruit more lawmakers, judges and prosecutors from qualified lawyers.
- CPC will improve its internal rules and mechanisms.
- The PLA will promote rule of law and enforce strict discipline.
- China will guarantee the “One country, two systems” practice and promote national reunification in line with the law.

The Chinese Economy



Is China Capitalist?

[http://intelligencesquaredus.org/
debates/past-debates/item/544-china-
does-capitalism-better-than-america](http://intelligencesquaredus.org/debates/past-debates/item/544-china-does-capitalism-better-than-america)

Introduction of Economic Reform and Departure from Central Planning in 1978

“It does not matter if it is a
black cat or if it is a white.
As long as it catches mice, it
is a good cat.”

Deng Xiaoping

China as a Transition Economy

- Centrally planned economy in transition depends on good governance
- Strong state is needed for the transition period – even to create a framework for a market economy
- Governance vs. human rights issues
- Institutions will evolve and be shaped by changing economic and social forces

**“We are the Communist Party.
We will define what Communism
is.”**

Attributed to Chen Yuan, former Deputy Governor, People's Bank of China. Richard McGregor, *The Party – The Secret World of China's Communist Rulers*, Penguin Books, 2011. P.37.

**Socialism with Chinese
Characteristics –
Market Economy as way to Socialist
outcomes**

Socialism with Chinese Characteristics

An Evolution

- “De-collectivization” of agriculture
- “Marketization” of State-owned assets
- Economic liberalization
- “Privatization” of many State Owned Enterprises (SOEs)
- Emergence of a vibrant private sector which is now the engine of growth companies
- Market Economy as way to Socialist outcomes

The Concept of Chinese Capitalism

- Chinese Capitalism is made up of state capitalism , private capitalism, and international capitalism,

Source: Marina Yue Zhang, China 2.0: The Transformation of an Emerging Superpower ... and the New Opportunities.



The Business Environment in China

Factors shaping China's Business Environment

- State capitalism – bureaucratic corporate culture, not always profit-maximizing, agency problems with CEOs, changing government policy and regulations, emphasis on relationship with officialdom, not all private companies are truly “private”
- A relationship society and economy – due diligence trust building processes maybe different, and Guanxi and Face are key in business relations and negotiations
- Immature legal framework – business model must include a dispute resolution model you can work with.
- Emerging economic power, new to internationalization
- Uneven development and diverse regional circumstances – there are many “Chinas,” they may communicate and operate differently
- In a hurry to get things done, short-term oriented and fiercely competitive.

Economic Significance of the State Sector

Comparison of the private sector and the observable state sector (RMB bil)

	1998-2001		2002-2004		2005-2009	
	Private sector	State sector	Private sector	State sector	Private sector	State sector
Gross industrial output value	483	3,804	2,921	6,314	11,491	12,729
Industrial value added	120	1,291	745	2,129	2,256	3,628
Total employment (urban + rural, mil.) in 2007	18	83	46	68	76	64
Industrial taxes	17	326	103	506	427	1,002

Source: Andrew Szamosszegi and Cole Kyle, *An Analysis of State-owned Enterprises and State Capitalism in China*, Capital Trade Incorporate, October 26, 2011, Table III-5.

China Business Structure:

Government relations inextricably tied to business success



15 of the 20 largest State-Owned Enterprises in China are headquartered within four kilometers of Zhong Nan Hai.



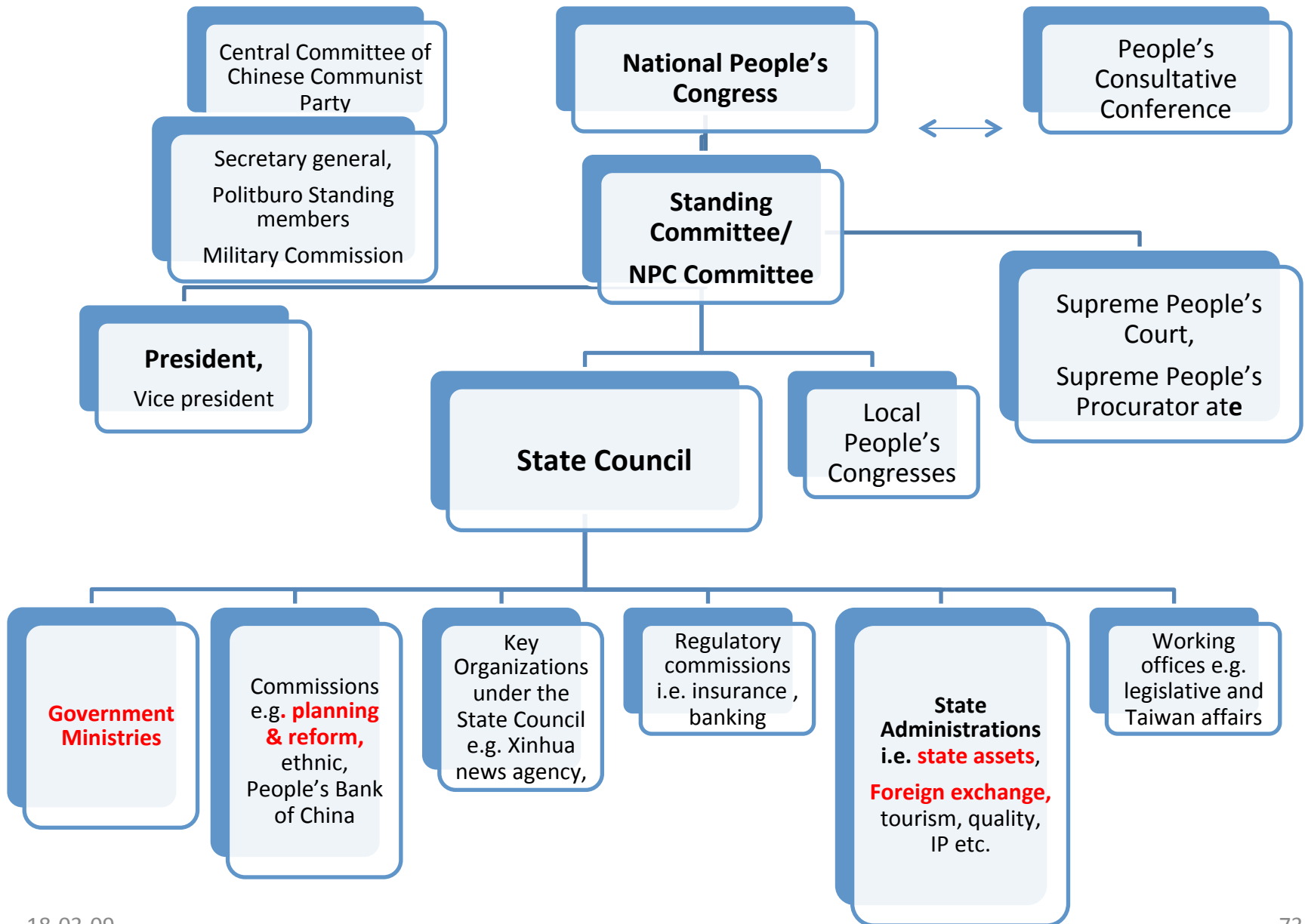
China Business Structure: Government and State Owned Enterprises



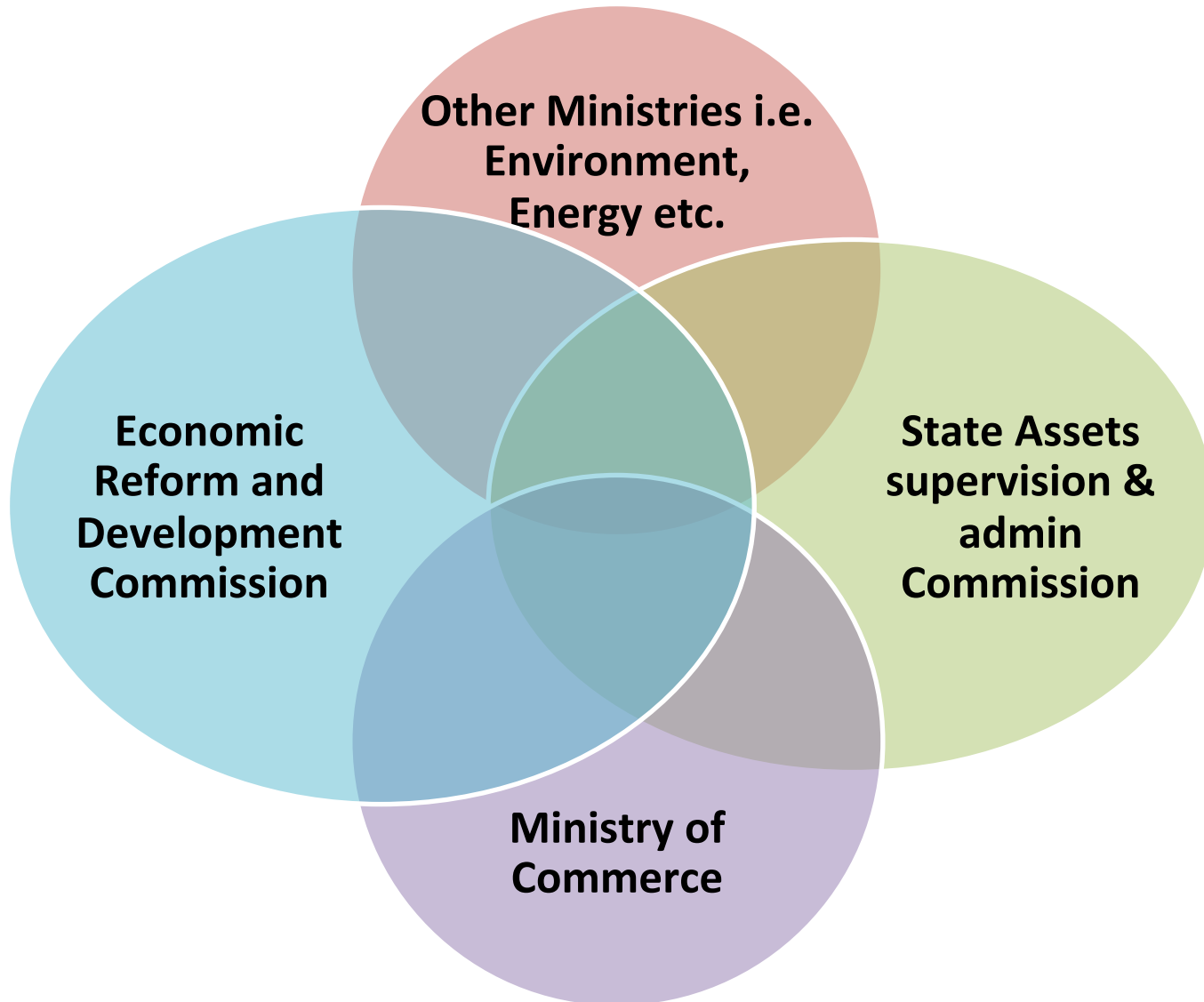
An evolving Relationship



Structure of Chinese Government



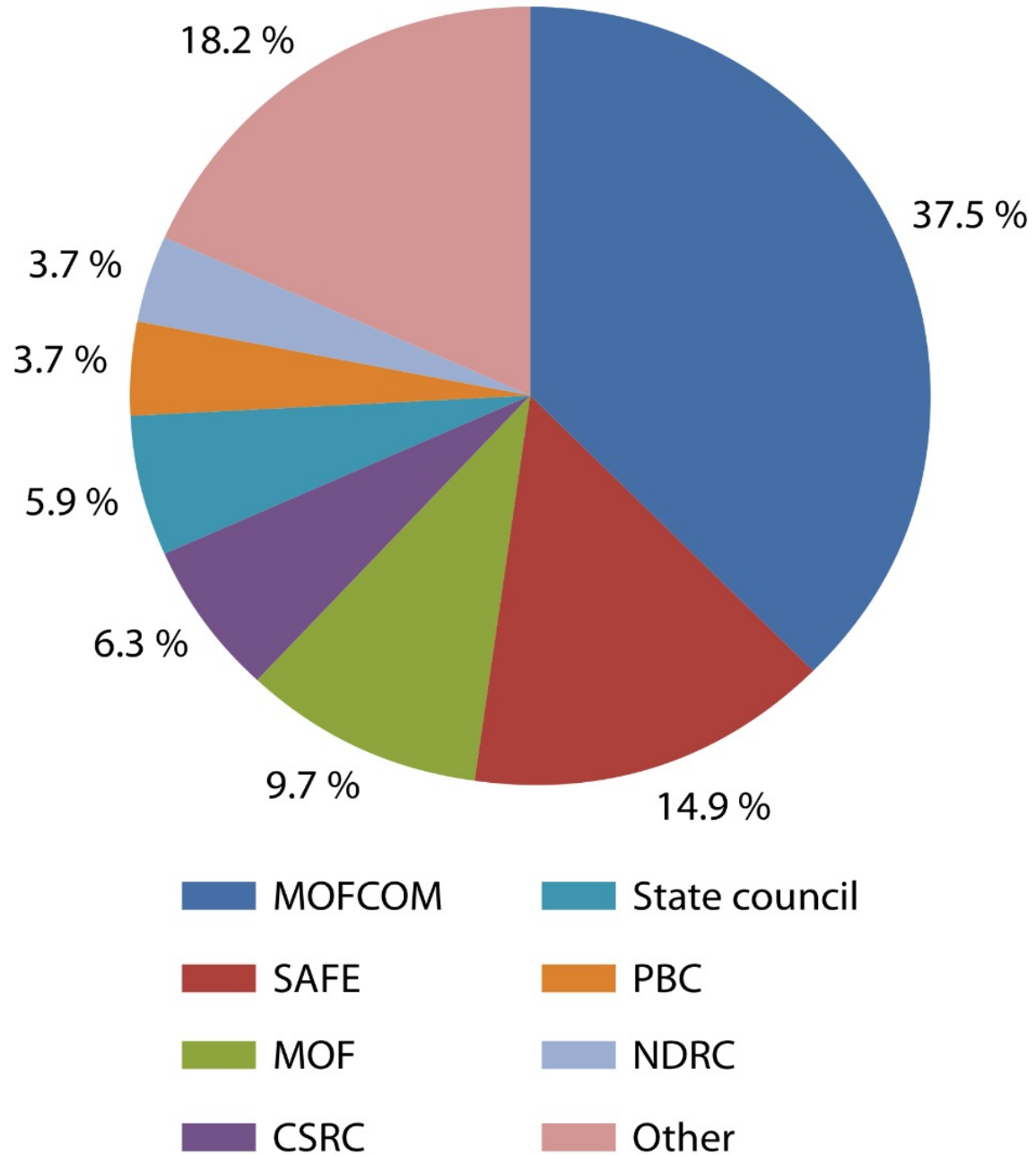
Consensus Building in Economic Policy Formation Provincial and Central



Major Chinese FDI needs the approval of various Chinese authorities, including the national or provincial authorities responsible for SOEs (the State-owned Assets Supervision and Administration Commission, SASAC), the National Reform and Development Commission (NDRC) and the State Council (depending on transaction size). Access to foreign exchange is controlled by the State Administration of Foreign Exchange (SAFE). NDRC approval usually comes after a business agreement is reached but before final approval from the foreign government. NDRC is concerned mainly with the nature of the investment and the investment parties (are they consistent with national policies?), rather than the commercial conditions

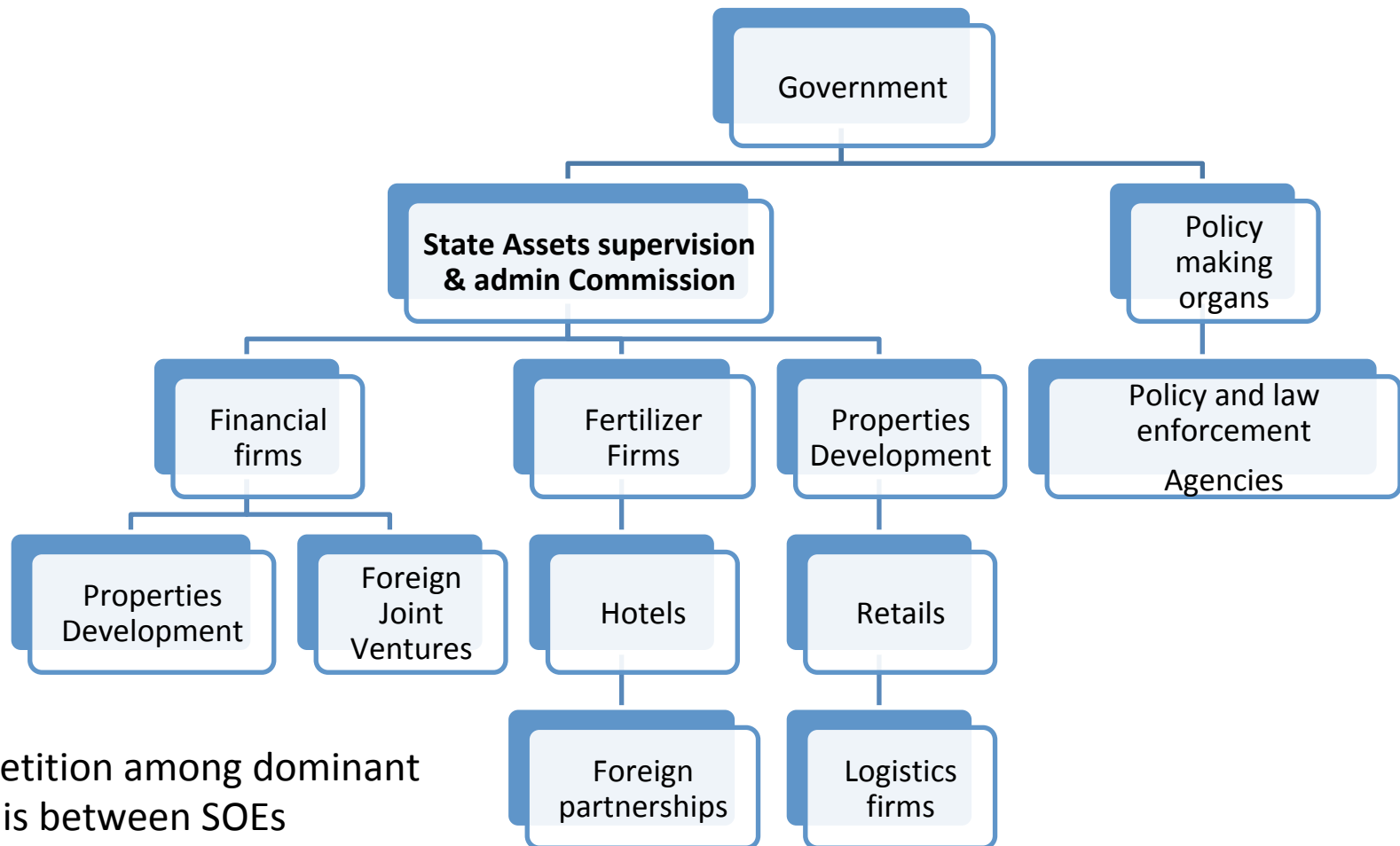
This process ensures compliance with national goals of China i.e. the five year plans and changes in government development policy.

Percentage of Overseas FDI Changes By Various Policy Making Agencies to 2010



State Capitalism in China

Provincial and Central



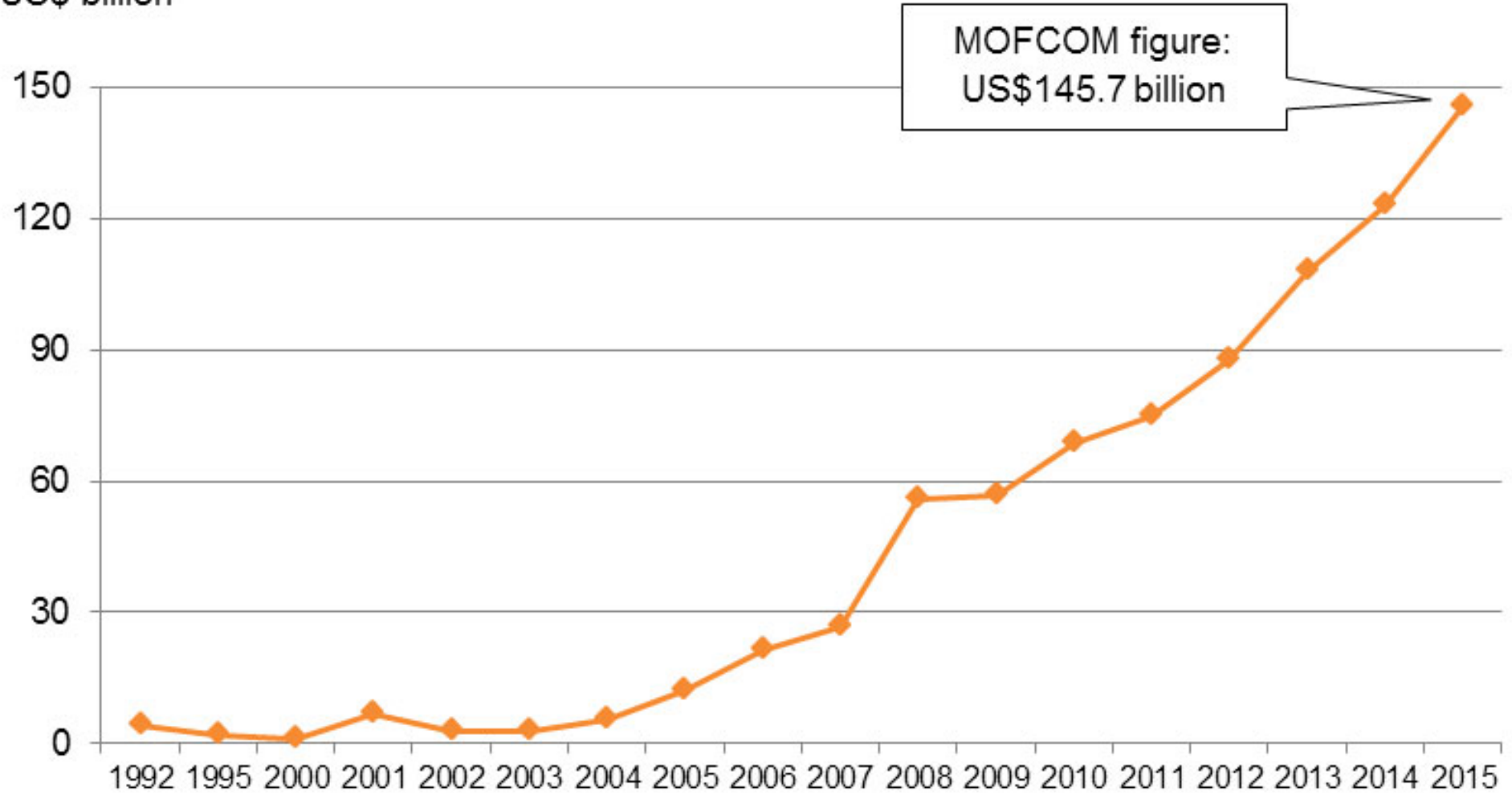
Competition among dominant Firms is between SOEs

China's Foreign Exchange Reserves, 1995 – 2011 (Billions of US\$)



China's FDI Outflows

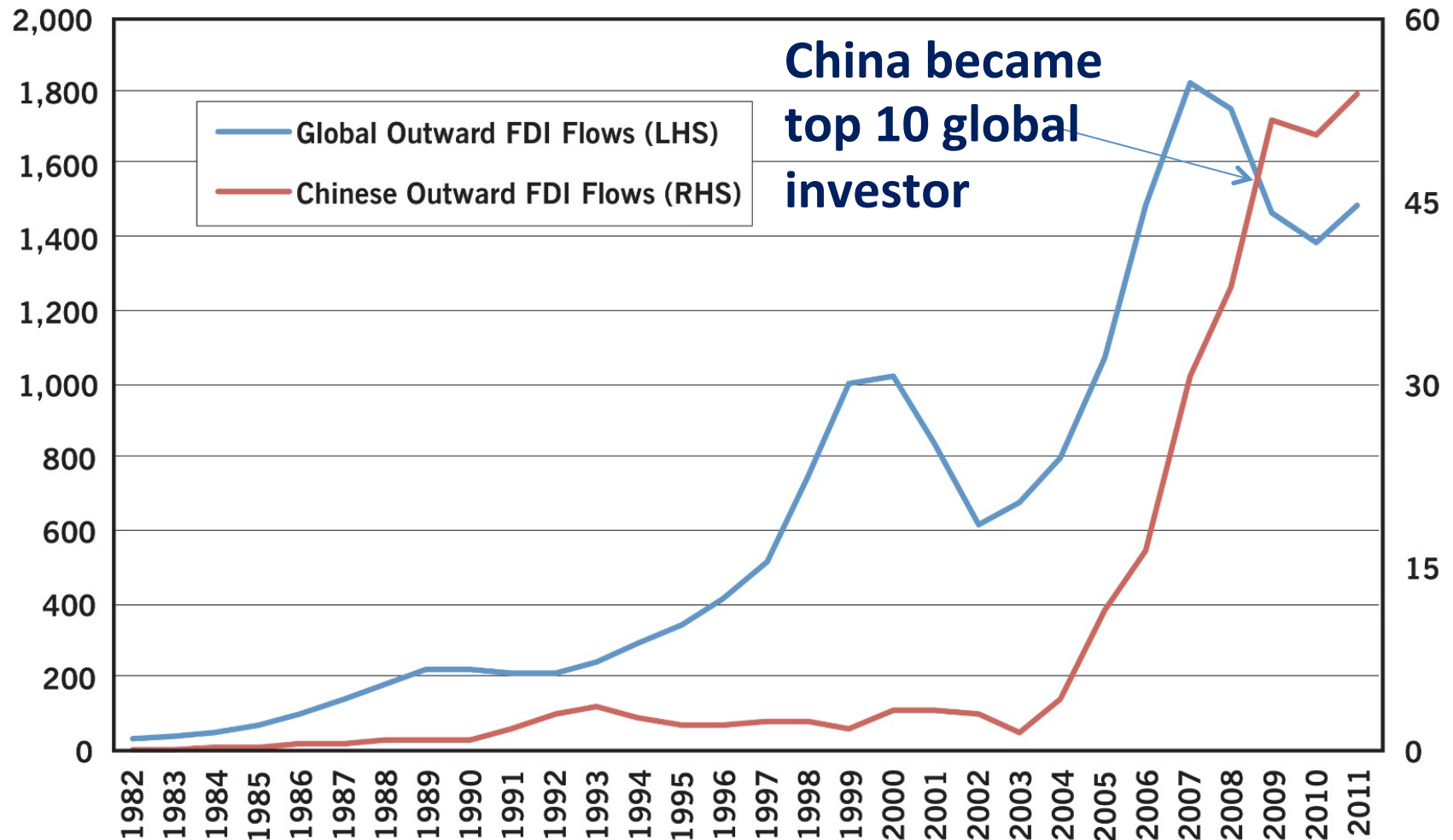
US\$ billion



Source: *Statistical Bulletin on China's Outward Foreign Direct Investment*

<http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/China-Takes-Global-Number-Two-Outward-FDI-Slot-Hong-Kong-Remains-the-Preferred-Service-Platform/rp/en/1/1X000000/1X0A804W.htm>

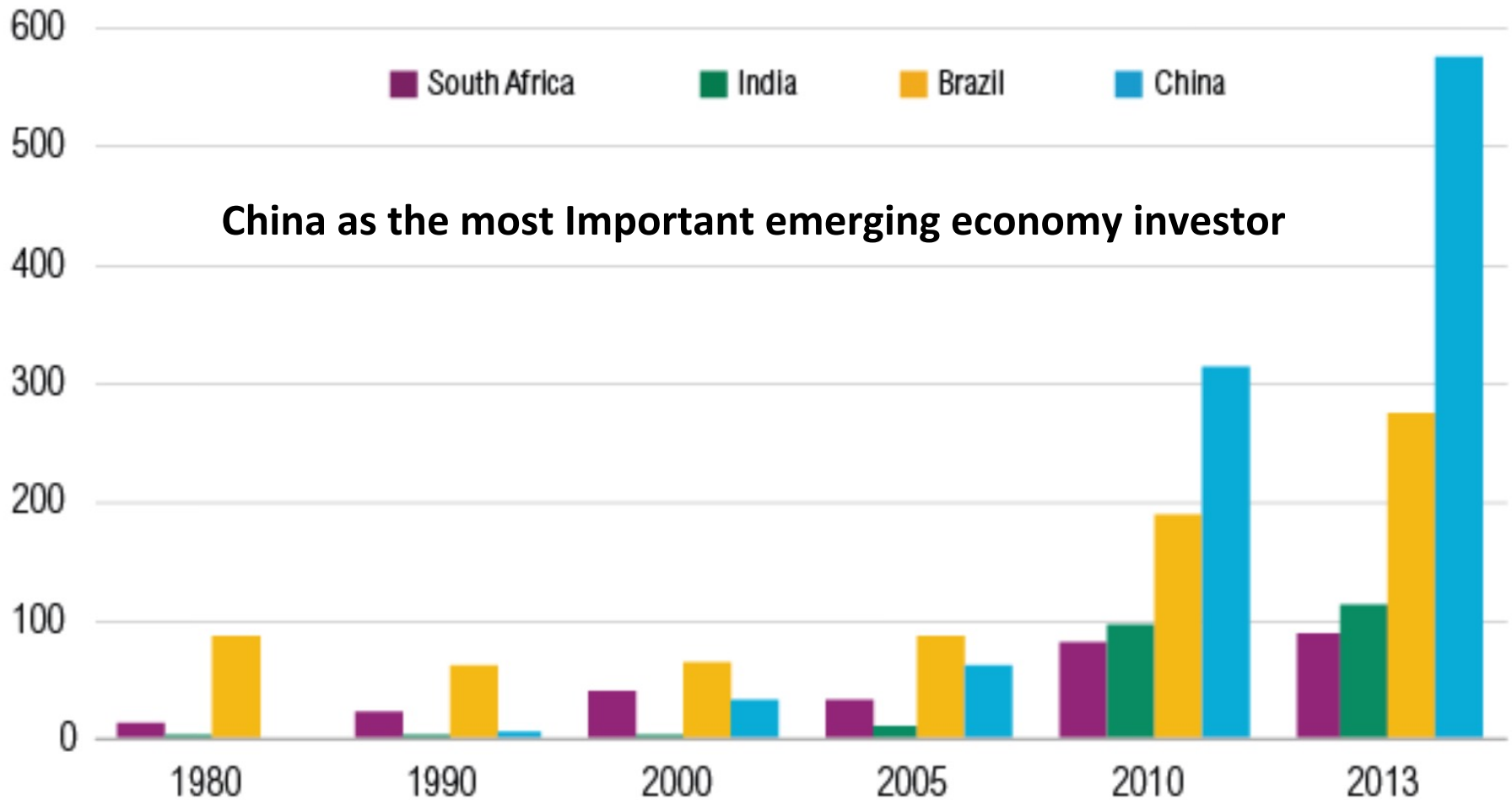
China's Outward FDI versus Global FDI Flows



Sources: Ministry of Commerce and State Administration of Foreign Exchange, People's Republic of China; United Nations Conference on Trade and Development; Rhodium Group.

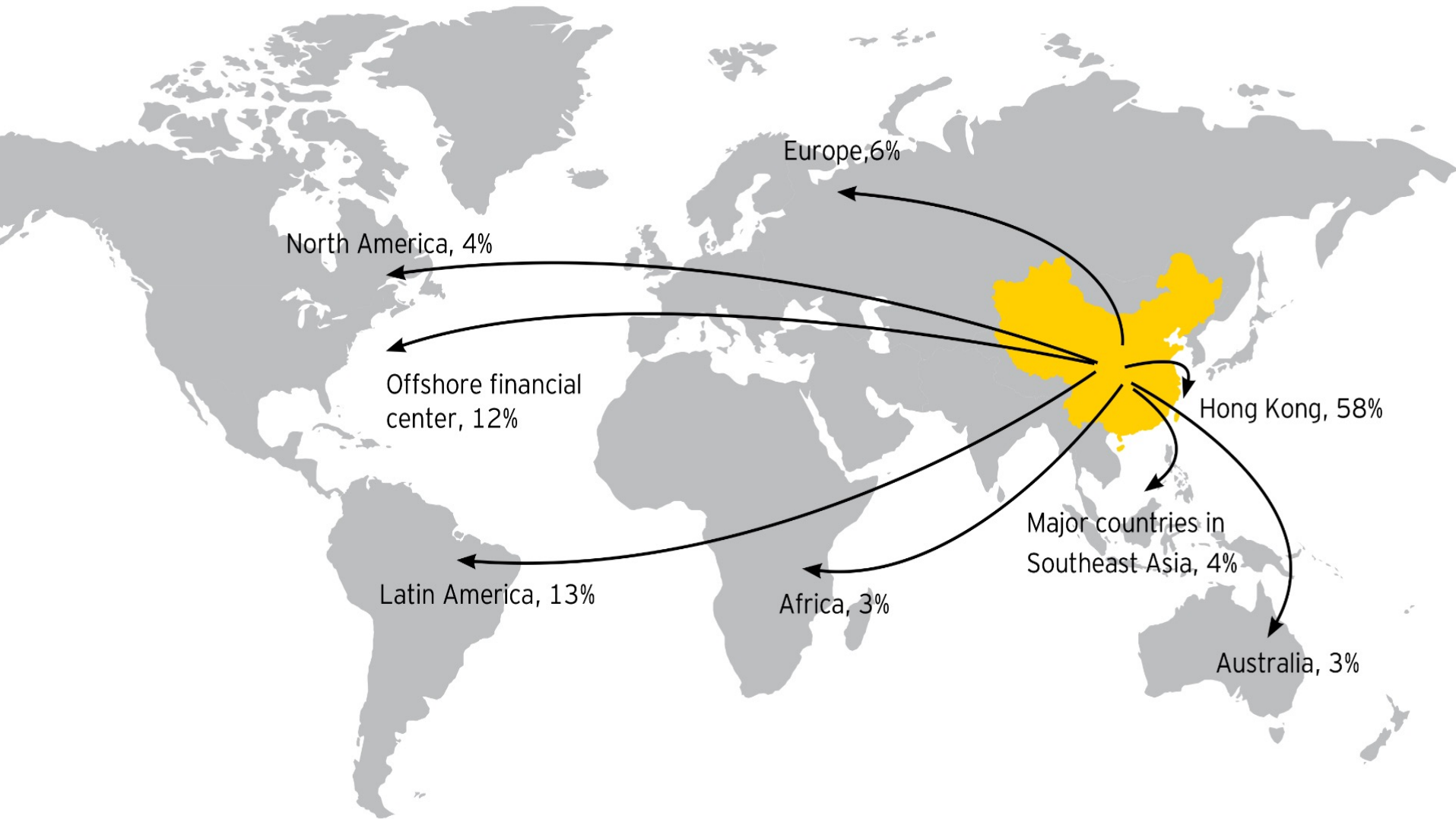
Source: Daniel Rosen & Thilo Hanwmann, *China Direct Investment in California*, Asia Society, 2012, p.17

Global Outward Foreign Direct Investment (OFDI) Stock from Emerging Economies (in US\$ billion)*



* Adjusted for inflation

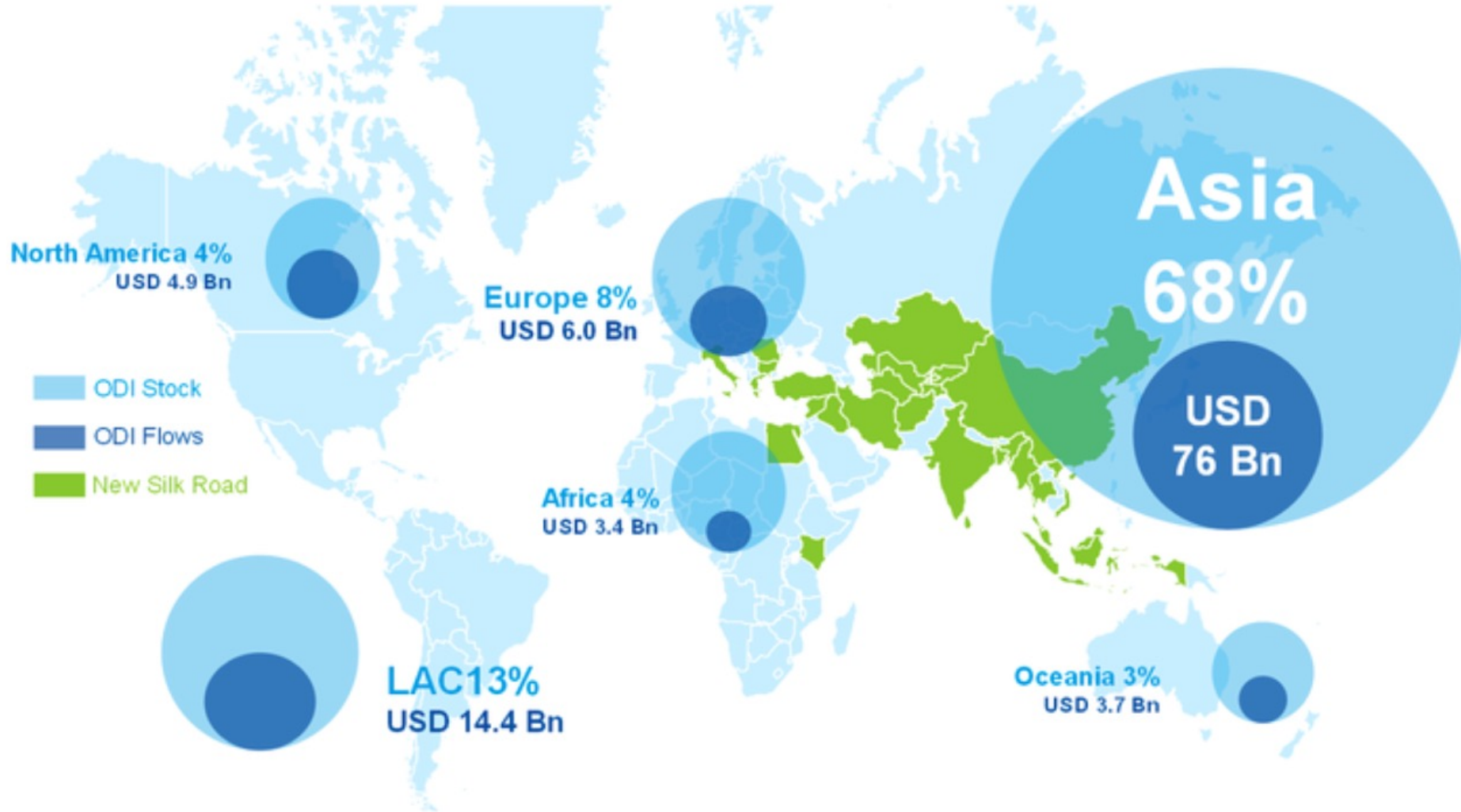
China's outward FDI footprint



Source: National Bureau of Statistics⁵

How China has Invested: 2013

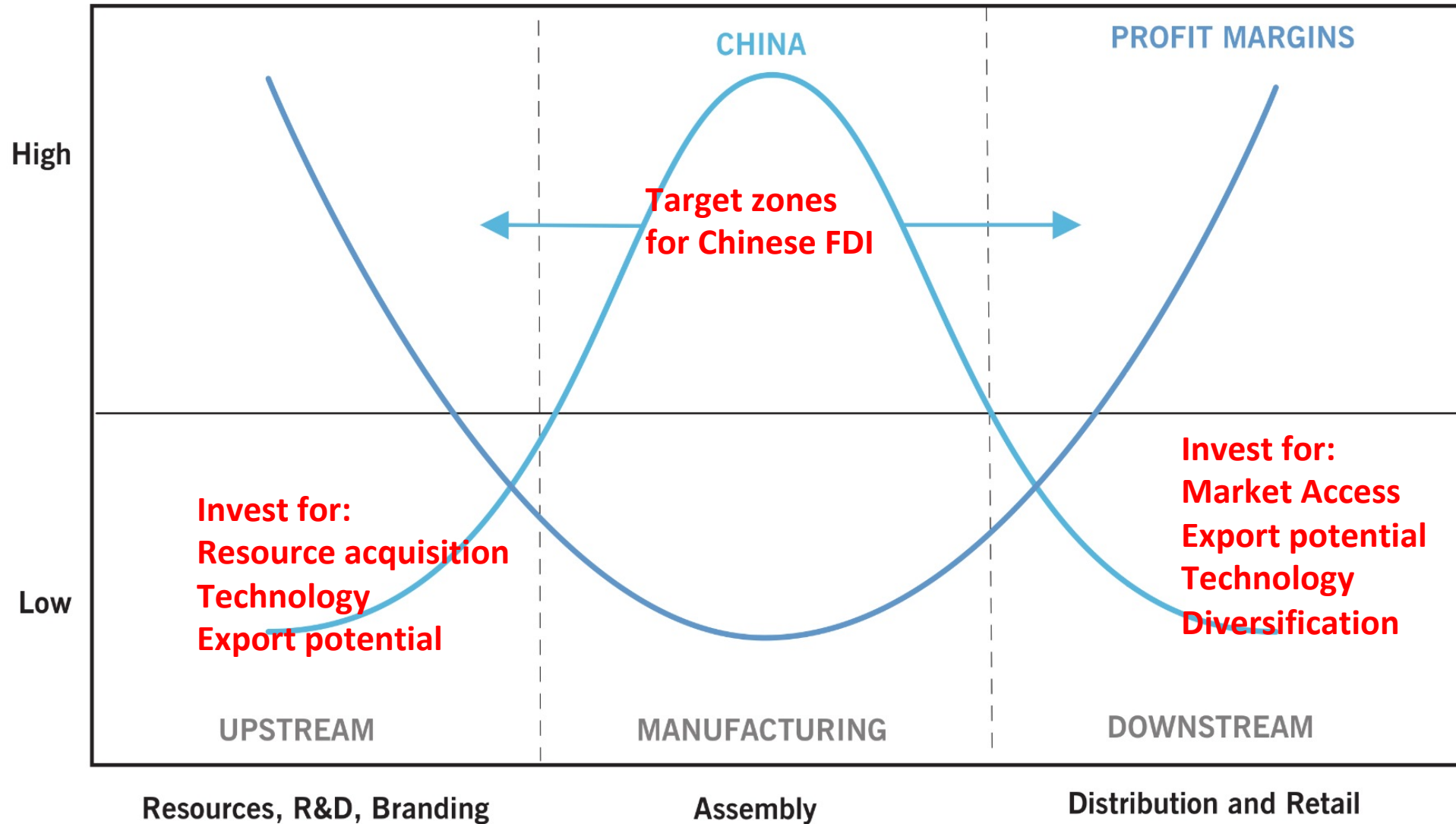
Distribution of Chinese ODI flows and stocks according to MOFCOM (2013)



Source: MOFCOM, NBS, SAFE and BBVA Research; Note: The bubbles are indicative and do not exactly represent the size of ODI flows and stocks.

Diagram source: Alicia Garcia-Herrero et.al., *China outbound foreign direct investment: How much goes where after round-tripping and offshoring*, BBVA Working Paper, June 2015.

China in the Global Supply Chain



Source: Daniel Rosen & Thilo Hanwmann, *China Direct Investment in California*, Asia Society, 2012, p.33

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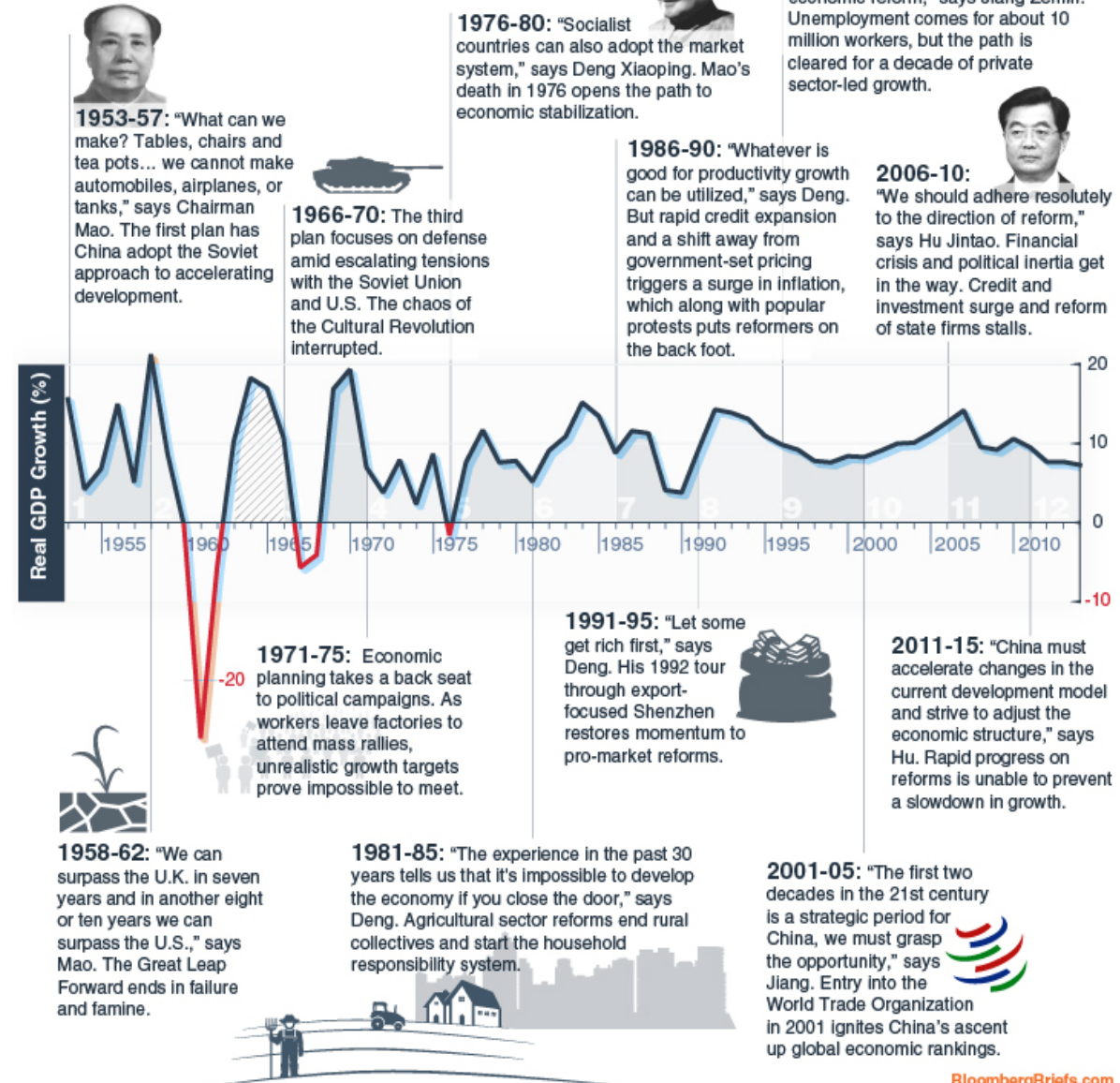
China's Five Year Plan

China's Five Year Plans: A Brief History

By Fielding Chen and Tom Orlik, Bloomberg Intelligence Economists
Design by Pekka Aalto, Bloomberg Brief Graphic Designer

Summary of China's Five-Year Plans

The history of China's five year plans shows a transition from over-reaching political ambition to measured economic progress. Bloomberg Intelligence Economics reviews the key aspects of the first 12 plans.



Goals of the 12th Five Year Plan March 2011 to 2015

Develop China's Western Region

**Protect the Environment and
Improve Energy Efficiency**

**Continue transition from an Export
oriented to a consumption
oriented economy**

**Improve the living standard of
the Chinese people**

**Develop 7 priority industries and
increase their share of GDP from 2
to 8% by 2015**

The 13th Five-Year Plan

China's New Five Year Plan Realising the China Dream – 2020 Goals Growth | Innovation | Sustainability

KING & WOOD
MALLESONS
金杜律师事务所

The Power of Together

Infrastructure

30,000km of high-speed rail covering >80% of major cities

50+
new civil
airports

60%
Urbanisation ratio of permanent residents

30,000km of highways built or upgraded

New airport in **Beijing**

Environment

5 million new energy vehicles manufactured and sold

Total **farmland maintained** at 1.865 billion mu = 1.24 million km²

RMB **6-10 trillion** invested in **environmental initiatives**

> **32.56 million mu** = 21.7 thousand km² of new construction land every year

PM10
(Particulate matter) air quality indicators to be replaced with

PM2.5

Financial services

Increased focus on **"green"** finance and financial innovation

Further opening up of **financial markets**

Further **internationalisation** of RMB

Significant financial market **reforms**

Health

Two-child policy fully implemented

At least **2.5** registered practitioners for every 1,000 people

Life expectancy increased by an average of one year

90% population to take part in the **basic pension fund program**

Social & economic development

+50 million urban jobs created

Added value of strategic new industries to reach **15%** of GDP

GDP over **RMB 92.7 trillion** by 2020, annual growth rate **+6.6%**

INNOVATIONS

GREEN

China's Key Industry under the 13th Five Year Plan

HEATH

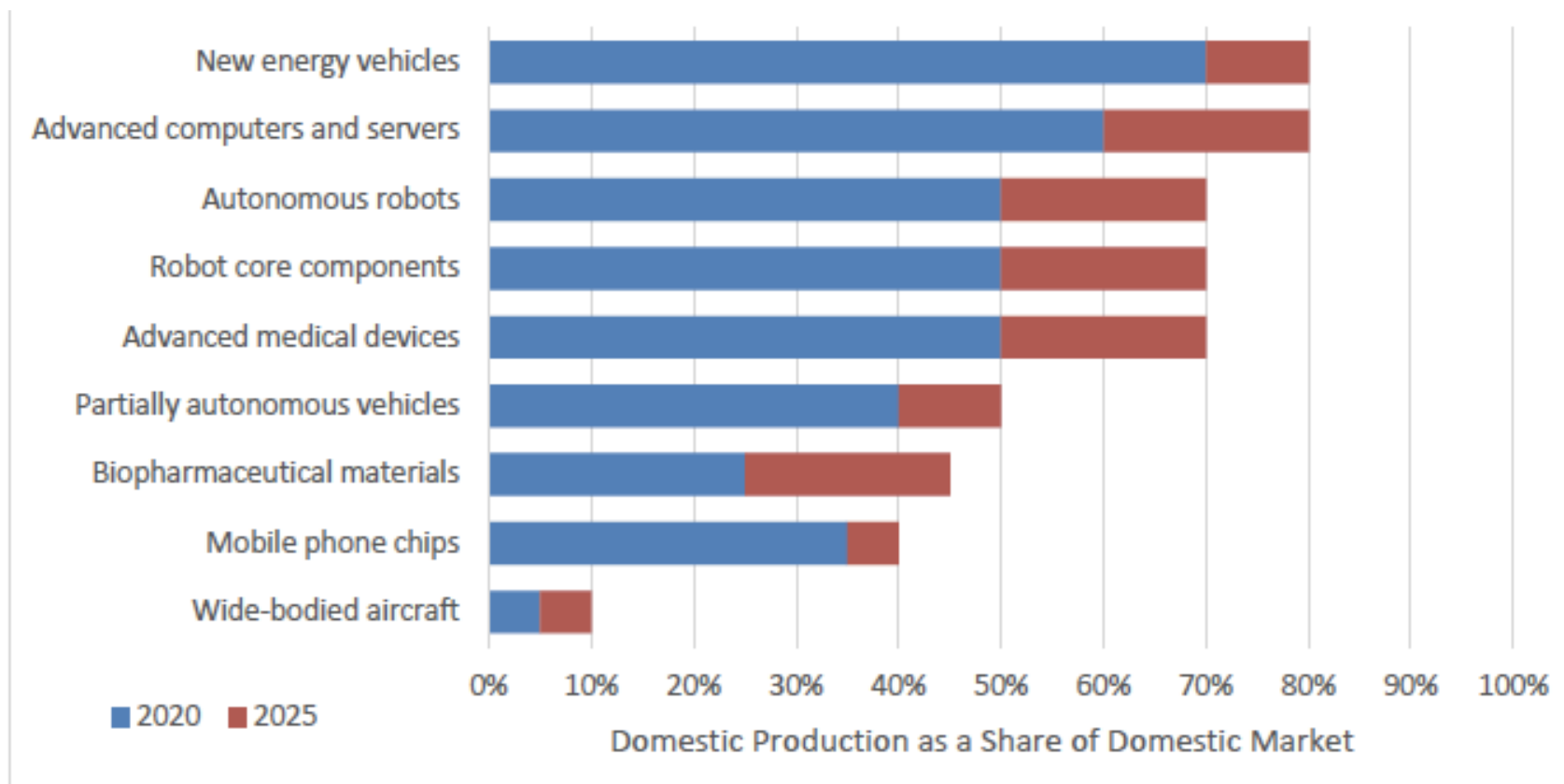
**Advanced
Technology**

Made in China 2025 (2015)	Strategic Emerging Industries (2010)	Strategic Industries (2006)	Heavyweight Industries (2006)
(1) New energy vehicles	(1) Clean energy technologies	(1) Armaments	(1) Machinery
(2) Next-generation IT	(2) Next-generation IT	(2) Power generation and distribution	(2) Automobiles
(3) Biotechnology	(3) Biotechnology	(3) Oil and petrochemicals	(3) IT
(4) New materials	(4) High-end equipment manufacturing	(4) Telecommunications	(4) Construction
(5) Aerospace	(5) Alternative energy	(5) Coal	(5) Iron, steel, and nonferrous metals
(6) Ocean engineering and high-tech ships	(6) New materials	(6) Civil aviation	
(7) Railway	(7) New energy vehicles	(7) Shipping	
(8) Robotics			
(9) Power equipment			
(10) Agricultural machinery			

Source: State Council of the People's Republic of China, Made in China 2025, May 8, 2015. http://www.gov.cn/zhengce/content/2015-05/19/content_9784.htm; U.S.-China Economic and Security Review Commission, Hearing on China's Five-Year Plan, Indigenous Innovation and Technology Transfers, and Outsourcing, written testimony of Willy C. Shih, June 15, 2011. <https://www.uscc.gov/sites/default/files/6.15.11Shih.pdf>, U.S.-China Economic and Security Review Commission, Hearing on the Extent of the Government's Control of China's Economy, and Implications for the United States, written testimony of George T. Haley, May 24–25,

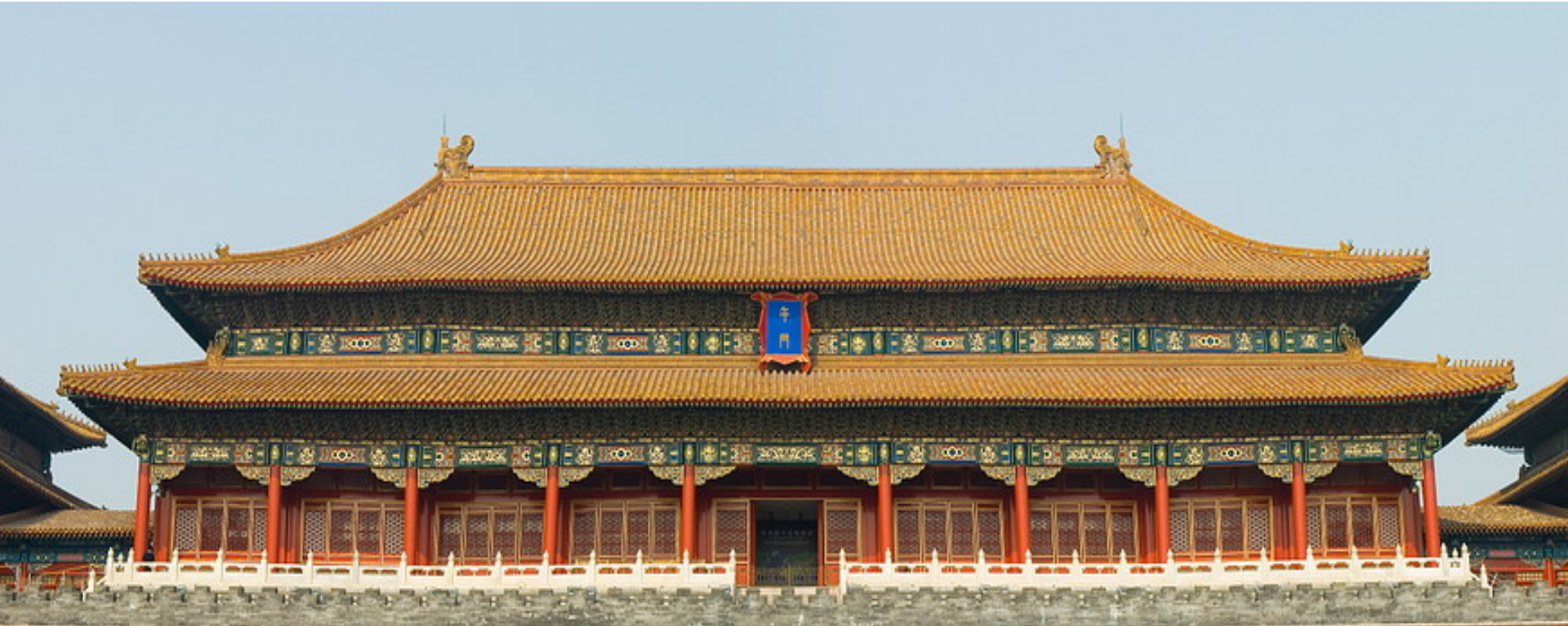
Source: US-China Economic and Security Review Commission, *Staff Research Report*, February 14, 2017; p.11

Select Made in China 2025 Key Area Technology Roadmap's 2020 and 2025 localization targets



Source: Expert Commission for the Construction of a Manufacturing Superpower, "Made in China 2025 Key Area Technology Roadmap," October 29, 2015. Chinese Academy of Engineering, Translation. <http://www.cae.cn/cae/html/files/2015-10/29/20151029105822561730637.pdf>.

Source: US-China Economic and Security Review Commission, *Staff Research Report*, February 14, 2017; p.12



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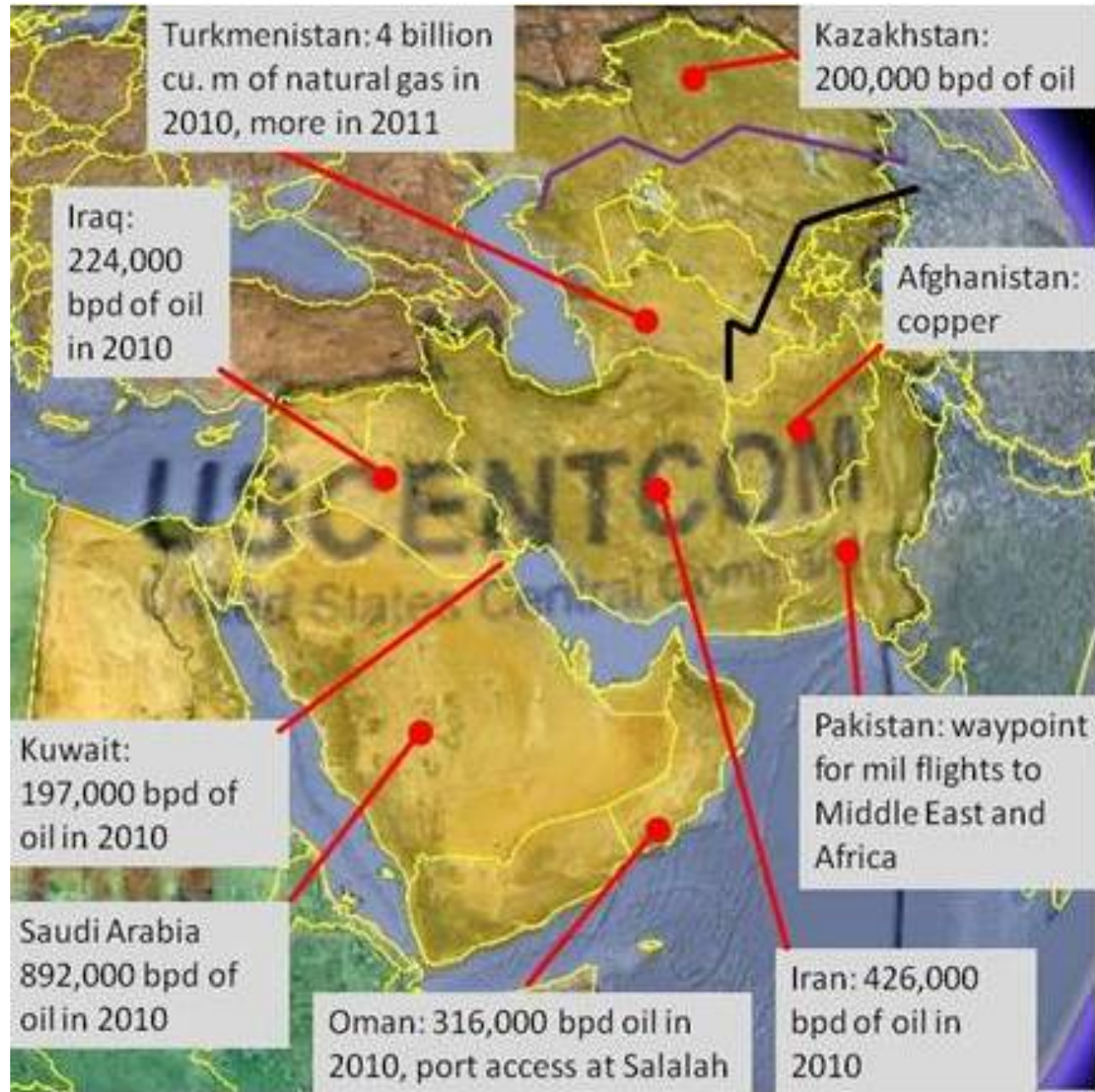
GEOPOLITICAL ISSUES

CHINA'S GEOGRAPHICAL CONSTRAINTS & VULNERABILITY



- 1. KUWAIT
- 2. SAUDI ARABIA
- 3. QATAR
- 4. UNITED ARAB EMIRATES
- 5. TURKMENISTAN

Middle Eastern Politics & China's Energy Supplies



CHINA: A COUNTRY OF GEOGRAPHICAL, ECONOMIC CULTURAL LINGUISTIC & ETHNIC DIVERSITY

*Geographical misalignment
Of population and resources*

*Population concentration
along coastal regions*

*Natural barriers to
communications
& transportation*

The North South Divide

*Ethnic minorities
concentrated
in border regions*



China's Strategic Economic Interests

- Natural Resources
- Access to new technology and markets
- Security in international trade
- Movement up the value chain
- Acquisition of Global Brands, management skills, & Marketing Expertise
- Stability in currency reserve value

FDI in Resource Firms

- China has been investing in iron ore, copper, and nickel mines in Australia, Papua New Guinea, Philippines, and Chile since 2001
- Oil and gas joint ventures in Sudan, Iran, Pakistan, Russia, central Asia and South America have been undertaken since 1999.
- Recent Investments in Alberta's Oil Sands

The Invisible Hand of the State

- International Relations Consideration
- Influence of National Policy and Strategic Goals
- Influence of the Growth Sectors
- “Support” from the State
- Vetting by the State

Food for Thought

- Signs of stable elite politics – history of smooth succession during reform period (upcoming change in March 2012 is important to watch).
- Relatively responsive government and policies – from growth and “opening up” policy to “Harmonious society” , to abolition of agricultural tax and private property law etc.

- <https://www.balsillieschool.ca/wp-content/uploads/2018/01/Chinas-Belt-and-Road-Initiative.pdf>
- <https://youtu.be/EwM9CuGcBgl>