The Beijing Axis (TBA) is a professional services firm focused on global procurement, international sales activation and cross-border advisory.

Combining extensive experience and comprehensive capabilities, we collaborate with clients across their value chain through global procurement services, international sales activation, capital advisory and strategy and management consulting in order to raise their performance and profitability.

Since our establishment in 2002, we have successfully worked with a large number of Chinese and other international MNCs across various sectors and industries i.e. mining and energy, agri & agri-processing, power & infrastructure, transport, construction, manufacturing, engineering, packaging and healthcare.

www.thebeijingaxis.com
Agenda

1. Foreword
2. Feature: Chinese Engagement and Activity in Africa
3. China Profile, Facts and Figures
4. China in the World
5. Conclusions, Implications and Recommendations
6. About The Beijing Axis
Foreword

In the same manner that a compass highlights the cardinal points of north, south, east and west, The China Compass is intended to serve as a navigational instrument for understanding China's position and its direction in the global economic landscape. By closely examining China's importance to, and progressive integration with, the world economy, The Beijing Axis presents The China Compass as a knowledge tool for executives with a China agenda.

Following a modest revival in global activity during 2017 and 2018, there are again many headwinds that are framing the international economic context. However, there are also many prevailing geo-political uncertainties, with the US-China trade war, Brexit and several other political flashpoints having become defining obstacles in a world of turmoil. Growth in US economic activity seems to have plateaued and the post-election process remains as painful as ever, as Americans continue to grapple with issues across a deepening divide - the latest US government shutdown a case in point. Meanwhile, European revival remains tentative with Brexit-pains and ongoing shifting political sentiments across Europe. These obstacles continue to cast a shadow of uncertainty. Hence, China's slowdown over 2019 only adds to already rising concerns; both over China's domestic economic prospects but also for the world economy.

China's transformation continues to accelerate – and the rate of change is now very rapid. As stated before, this leaves a wake of changes that has been destructive for some, but that also heralds a new dawn for others. The impact is being felt domestically and internationally. China's policy makers clearly recognise the risks and evolving nature of the country's social, economic, and financial terrain; and despite mounting challenges, our view remains that Beijing still has enough policy leeway to offer critical support to offset the pressures in the economy; so, no hard landing on the horizon. But, deep-rooted and often painful reforms must continue as a matter of urgency so as to safeguard not just the current cycle, but also the structural integrity of China's economy and its ability to deliver on its long-term development goals. This will ensure sustained high GDP growth of above 5.5% - and the ability to overcome many challenges along the way - and the ongoing transition to a consumer-driven, service-oriented and higher-value-add economy.

Meanwhile, China's global participation and influence are only rising – and is being played out across many dimensions, i.e. geopolitics, international economics, trade, capital flows, and culture. In our feature segment, we investigate China's activities and engagement in Africa by looking into its role in African trade, capital flows, and infrastructure. We also delve deeper into the China – South Africa economic relationship following 20 years of diplomatic ties.

In Section 1, we set the scene. Section 2 features 'China's engagements and activities in Africa'. Sections 3 and 4 provide a more detailed, quantitative look into China's domestic economic, social, financial, and geopolitical make-up, and presents a comparison with selected economies in the wider global community. Finally, Section 5 offers insights into key trends and outlines the high-level conclusions, implications, and recommendations for players that are engaging in/with China.

We trust that this edition will be useful for those who are in the midst of planning a China agenda, and that it will shed light on past developments and future prospects of a uniquely Chinese story of human development.

As always, we welcome all feedback.

Kobus van der Wath
Founder & Group Managing Director
Axis Group International / The Beijing Axis
kobus@thebeijingaxis.com
China’s GDP growth is expected to continue moderating, making it more sustainable - GDP growth rates in recent years already reflect this ‘new normal’.
With a GDP of USD 12tn in 2017, China accounted for 15% of the world’s economy and 40% of all developing economies; whilst China, India and Indonesia accounted for 53% of all developing economies.
Emerging and Developing Asia accounted for around 22% of global GDP in 2017 – set to have its share increase to 24% by 2020.

### Regional GDP Comparison (%, 2014-2020F)


- **Emerging and Developing Asia**: 7.040% growth
- **Sub-Saharan Africa**: 3.201% growth
- **Latin America and the Caribbean**: 6.207% growth
- **Other Advanced Economies**: 5.493% growth
- **Emerging and Developing Europe**: 4.319% growth
- **Commonwealth of Independent States**: 2.926% growth
- **MENA**: 2.404% growth
- **Euro Area**: 2.404% growth
- **Canada**: 1.531% growth
- **Brussels**: 1.531% growth
- **Japan**: 1.201% growth
- **Major Advanced Economies (G7)**: 8.461% growth

### BRICS

<table>
<thead>
<tr>
<th>Country</th>
<th>2014-17 Avg. GDP Growth Rate (%)</th>
<th>2017 GDP per Capita (USD)</th>
<th>2020F GDP per Capita (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6.9</td>
<td>8,643</td>
<td>12,029</td>
</tr>
<tr>
<td>Brazil</td>
<td>-1.4</td>
<td>9,895</td>
<td>11,141</td>
</tr>
<tr>
<td>Russia</td>
<td>-0.1</td>
<td>10,608</td>
<td>12,426</td>
</tr>
<tr>
<td>India</td>
<td>7.3</td>
<td>1,983</td>
<td>2,539</td>
</tr>
<tr>
<td>S. Africa</td>
<td>1.2</td>
<td>6,180</td>
<td>6,815</td>
</tr>
</tbody>
</table>

Note: 1. GDP values are in national currencies converted to U.S. dollars using market exchange rates (yearly average) as given in IMF WEO April 2018
2. France, Germany and Italy have been included both in the Euro Area and Major Advanced Economies (G7) for the purpose of this representation

Source: IMF; The Beijing Axis Analysis
The Asia Pacific region is large and diverse, and home to countries at different stages of development

### Tier 1: Emerging Markets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>309</td>
<td>1,641</td>
<td>204</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>313</td>
<td>1,880</td>
<td>166</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>98</td>
<td>4,470</td>
<td>22</td>
</tr>
<tr>
<td>Myanmar</td>
<td>74</td>
<td>1,390</td>
<td>53</td>
</tr>
<tr>
<td>Nepal</td>
<td>30</td>
<td>1,010</td>
<td>30</td>
</tr>
<tr>
<td>Cambodia</td>
<td>26</td>
<td>1,600</td>
<td>16</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>21</td>
<td>2,500</td>
<td>8</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>20</td>
<td>2,910</td>
<td>7</td>
</tr>
<tr>
<td>Brunei</td>
<td>15</td>
<td>34,560</td>
<td>0.44</td>
</tr>
<tr>
<td>Mongolia</td>
<td>14</td>
<td>4,470</td>
<td>3</td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>3</td>
<td>2,630</td>
<td>1.3</td>
</tr>
<tr>
<td>Bhutan</td>
<td>2</td>
<td>3,420</td>
<td>0.8</td>
</tr>
<tr>
<td>Total</td>
<td>926</td>
<td>5,206</td>
<td>511</td>
</tr>
</tbody>
</table>

### Tier 2: Developing Markets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>14,170</td>
<td>10,100</td>
<td>1,400</td>
</tr>
<tr>
<td>India</td>
<td>2,960</td>
<td>2,190</td>
<td>1,350</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,070</td>
<td>3,970</td>
<td>268</td>
</tr>
<tr>
<td>Malaysia</td>
<td>372</td>
<td>11,340</td>
<td>32</td>
</tr>
<tr>
<td>Philippines</td>
<td>354</td>
<td>3,250</td>
<td>109</td>
</tr>
<tr>
<td>Thailand</td>
<td>524</td>
<td>7,570</td>
<td>69</td>
</tr>
<tr>
<td>Vietnam</td>
<td>266</td>
<td>2,790</td>
<td>95</td>
</tr>
<tr>
<td>Total</td>
<td>19,716</td>
<td>5,887</td>
<td>3,323</td>
</tr>
</tbody>
</table>

### Tier 3: Developed Markets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>5,220</td>
<td>41,420</td>
<td>126</td>
</tr>
<tr>
<td>South Korea</td>
<td>1,700</td>
<td>32,770</td>
<td>51</td>
</tr>
<tr>
<td>Australia</td>
<td>1,460</td>
<td>57,200</td>
<td>25</td>
</tr>
<tr>
<td>Taiwan, China*</td>
<td>626</td>
<td>26,520</td>
<td>24</td>
</tr>
<tr>
<td>Hong Kong SAR, China*</td>
<td>380</td>
<td>50,570</td>
<td>7</td>
</tr>
<tr>
<td>Singapore</td>
<td>359</td>
<td>62,980</td>
<td>6</td>
</tr>
<tr>
<td>New Zealand</td>
<td>212</td>
<td>42,010</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>9,957</td>
<td>44,781</td>
<td>244</td>
</tr>
</tbody>
</table>

Total Asia Pacific GDP in 2018 – USD 30,599bn
Asia Pacific’s Share of World GDP in 2018E – ~34.74%
Asia Pacific’s Share of World Population in 2018E – ~54%

Note: *Taiwan, China; Hong Kong SAR, China; and Macau SAR, China; will be referred to as Taiwan, Hong Kong, and Macau
2018 estimate is from the IMF World Economic Outlook October 2018 Report
Source: IMF; Various; The Beijing Axis Analysis
As the largest economy in Asia, China plays a critical role in the region’s ongoing transformation, both as a major market and as a supply base.
Over the last decade, China has been an increasingly important contributor to the world economy, typically accounting for more than 30% of total global GDP growth.

**Contribution to World GDP Growth (Percentage Points, 1991-2017)**

- Financial crisis in the US and some EU countries led to overall global GDP decrease in 2009.
- In 2017, China contributed 1.22% to world GDP growth percentage points, which accounts for 32% of total 3.77% GDP growth.

Note: Calculation through weighted GDP at purchasing-power parity
Source: World Bank; The Beijing Axis Analysis
Setting the scene

- Although China is in a long-term structural adjustment phase towards lower GDP growth, it maintains world-leading growth levels and currently is still the single largest contributor to global economic growth.

- With GDP growth of 6.6% in 2018 and with 2019 forecast at above 6%, the role of China as the growth engine in the global economy will largely remain unchanged but will nevertheless dampen certain sectors’ and countries’ growth prospects – these exposures and risks must be managed.

- Drastic policy measures and reforms are being undertaken to ensure that China’s long-term growth is sustainable; however, even deeper reforms are needed to sustain the efficiencies and to de-risk the future.

- China is the world’s largest exporter, and ranks only behind the US as the largest importer. China’s position as a trade behemoth, and its favourable trade surplus, also gives it the necessary economic clout to make valuable overseas investments.

- The US-China trade war has wide-reaching ramifications for China, the US and other countries – and their respective companies. The impact on global supply chains has already been significant and is likely to intensify. This is a major risk over the next several quarters.

- Increased outward investment – despite the recent curbs on OFDI – and growing domestic demand are hallmarks of China’s new economic growth model. We interrogate aspects of these developments with regard to Africa in our special feature.

- Indeed, for the last 30 years, China has traditionally been a net importer of FDI, with the country being a highly attractive investment destination since the mid-1990s. However, recent years have seen China evolve into a major net global investor.

- Executives and managers need to think very differently about China now – numerous risks (and opportunities) must be measured and managed proactively, and this is particularly true for those that are directly or indirectly exposed to Chinese activity in their inbound supply chain, outbound supply chain and capital choices.
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Other Recent Research & Publications by Axis Group International / The Beijing Axis
Please contact us for access to i.e.:
1. Asian Export Guide – What to export to Asian economies and how to succeed?
2. China Export Guide – What to export to China and how to succeed?
3. 20 Years of SA-China Diplomatic ties – Looking ahead at the next phase of economic and business relations
The China-Africa relationship is one which has expanded greatly in the past two decades, and this is likely to continue well into the 2020s and 2030s.

**Sino-African Relationship Overview**

- USD 94.4bn in loans to Africa between 2000 and 2015
- USD 94.1bn FDI value in Africa (2016)
- USD 676bn FDI projects in Africa (2016)
- USD 149bn in trade (2016)
- 53/54\(^1\) African countries have formal diplomatic ties with China
- Nearly 50,000 African students are studying in China
- 15% of imports into Africa are sourced from China

**Sino-African Relations Timeline**

- **1975** China completes construction of the TAZARA railway linking the port of Dar es Salaam with Zambia’s Kapiri Mposhi
- **1996** Jiang Zemin tours Africa, visiting Kenya, Ethiopia, Namibia, Zimbabwe
- **2000** Forum on China-Africa Cooperation (FOCAC) founded
- **2006** FOCAC summit held in Beijing, joined by 35 African countries
- **2007** China-Africa Development Fund established in Beijing
- **2009** Hu Jintao tours Africa, visiting 8 countries and giving a speech in South Africa
- **2013** Xi Jinping visits Tanzania, South Africa, and Republic of Congo
- **2014** Li Keqiang makes a speech at the Africa summit of WEF, pledging financial support for Africa’s infrastructure development
- **2015** African Union and China sign an MOU for continental transport development
- **2015** 6\(^{th}\) FOCAC summit, held in Johannesburg
- **2018** Li Zhanshu visits African Union headquarters and pledges China’s support
- **2018** 7\(^{th}\) FOCAC summit, 3\(^{rd}\) held in Beijing

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1: Swaziland is the only African country that maintains diplomatic relations with Taipei
Source: EY; American Enterprise Institute; The Beijing Axis Analysis
China-Africa relations have steadily progressed through three distinct phases. The current phase is mainly driven by China's increasing need for resources and Africa's search for a long-term development model.

**Phase**
- **Political Phase (1950s – mid-1970s)**
  - Non-aligned movement
  - African post-colonialism
  - PRC vs. Taiwan recognition

- **Dormant Phase (mid-1970s – late 1990s)**
  - China focus with post-1978 “Open-Door Policy” and economic reforms
  - Heavy competition for African influence from US and USSR

- **Commercial Phase (2000s – present)**
  - China’s demand for raw materials and other resources
  - China’s quest for new markets for its goods and services
  - China’s quest for international influence through OFDI, aid, mediation, and UN votes

**Drivers**
- **Political Phase**
  - China focus with post-1978 “Open-Door Policy” and economic reforms
  - Heavy competition for African influence from US and USSR
- **Dormant Phase**
  - Slowly rising Chinese exports of light industry production (garments, textiles, toys, etc.)
  - Small, trade-driven deals mainly with private Chinese firms
- **Commercial Phase**
  - China’s demand for raw materials and other resources
  - China’s quest for new markets for its goods and services
  - China’s quest for international influence through OFDI, aid, mediation, and UN votes

**Examples**
- **Political Phase**
  - Recognition by China of newly independent African states
  - Foreign aid by China in return for PRC (vs. Taiwan) recognition
  - Mutually-beneficial UN voting support
- **Dormant Phase**
  - Resources for infrastructure
  - Long term financing with no strings attached
  - Chinese EPCs in Africa’s infrastructure build-up
- **Commercial Phase**
  - FOCAC, CAD Fund
  - Government-to-government resource deals
  - Resources for infrastructure

Source: Various; The Beijing Axis Analysis
Between 2000 and 2017, Africa’s GDP at current prices increased at an average rate of 7%, while China’s increased at 14% per year. Africa’s growth was, in large part, fueled by China’s rapid growth and resource consumption (correlation and causality).

**China’s Historical GDP at Current Prices (USD bn, 2000-2018E)**

**Africa’s Historical GDP at Current Prices (USD bn, 2000-2018E)**

Source: National Bureau of Statistics of China; IMF; The Beijing Axis Analysis

Note: 2018 estimate is from the IMF World Economic Outlook October 2018 Report
Between 2000 and 2017, Africa’s GDP at constant prices increased at an average rate of 4% per year; China’s increased at 9% per year. Africa’s growth was, in large part, fueled by China’s rapid growth and resource consumption (correlation and causality).

China’s Historical GDP at Constant Prices (USD bn, 2000-2017)

Africa’s Historical GDP at Constant Prices (USD bn, 2000-2017)

Note: Rest of Africa does not include Swaziland, South Sudan, Sudan and Tanzania as GDP figures for them are unavailable.
Source: UNCTAD; The Beijing Axis Analysis
Much of China’s economic activity remains concentrated along its coastline. While economic prosperity in Africa is distributed across its different regions, all of its most prosperous areas have access to maritime trade, similar to China.

### China’s Provincial GDP Spread (2018)

- **Guangdong**: $1,439bn
- **Jiangsu**: $1,370bn
- **Shandong**: $1,131bn
- **Henan**: $711bn
- **Zhejiang**: $820bn
- **Henan**: $711bn

### African Countries’ GDP Spread (2018)

- **Nigeria**: $397bn
- **Egypt**: $249bn
- **Morocco**: $118bn
- **Algeria**: $188bn
- **Angola**: $114bn
- **SA**: $377bn

Source: National Bureau of Statistics of China; IMF; The Beijing Axis Analysis
Multi-lateral and Bi-lateral Membership of both China and African countries

- **G20**: International forum for some of the world’s largest and most powerful economies. South Africa is the only African G20 member.

- **South-South Cooperation**: It is a framework of collaboration among countries of the global South in the political, economic, social, cultural, environmental and technical domains.

- **UN**: The UN is an intergovernmental organization that seeks to promote international cooperation and enables governmental dialogue.

- **WTO**: The WTO deals with the global rules of trade between nations. It is a forum for governments to negotiate trade agreements and settle trade disputes.

- **B&R (Belt & Road)**: The B&R initiative opens considerable potential in economic, political and cultural areas. China is expanding its market reach and foothold.

- **AIIB**: The large infrastructure requirement in Asia, coupled with many Asian countries' inability to meet these requirements, has driven the emergence of the AIIB.

- **BRICS**: The importance of the BRICS economies has grown tremendously — this trend is being supported by new institutions, such as the New Development Bank.

- **FOCAC**: FOCAC is a strategic mechanism for cooperation between China and Africa — it must be seen strategically in this horizon and beyond.

Source: Various; The Beijing Axis Analysis
China is pursuing an ambitious global strategy with various international initiatives. There are various platforms / organisations launched around the world to serve its goals and objectives

### Key Details for AIIB, BRICS/NDB, FOCAC and the New Silk Road Fund

<table>
<thead>
<tr>
<th></th>
<th>AIIB</th>
<th>BRICS/NDB</th>
<th>FOCAC</th>
<th>New Silk Road Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year Founded</strong></td>
<td>March 2015</td>
<td>July 2014</td>
<td>October 2000</td>
<td>September 2013</td>
</tr>
<tr>
<td><strong>Type of Organisation</strong></td>
<td>New Asian multilateral organisation in the ‘Asian century’, initiated by China, but attracting most major powers worldwide, including European nations</td>
<td>The five BRICS governments (Brazil, Russia, India, China, and South Africa) have developed an important platform for cooperation among emerging markets and developing countries</td>
<td>Conference established for strengthening cooperation between China and African states, and to seek common economic development</td>
<td>A suite of joint investment projects and regional trade blocs with the potential to bring economic growth and stability to all countries involved</td>
</tr>
<tr>
<td><strong>Members</strong></td>
<td>64 countries worldwide, including numerous Western nations</td>
<td>Brazil, Russia, India, China, and South Africa</td>
<td>China, 50 African states and the Commission of the African Union</td>
<td>State-owned entity</td>
</tr>
</tbody>
</table>
| **Key Objectives**   | - Asian countries seeking funds for infrastructure development  
                      - China wishes to bridge that gap by investing its funds  
                      - Constructive agenda for cooperation (donors & recipients) | - Mobilisation of resources for infrastructure and other sustainable development projects  
                      - Currency pool to combat currency crises  
                      - Establish a development bank | - Equal consultation  
                      - Enhancing understanding  
                      - Expanding consensus  
                      - Strengthening friendship  
                      - Promoting cooperation | - Policy coordination  
                      - Infrastructure connectivity  
                      - Unimpeded trade  
                      - Financing for B&R-related energy and transportation projects across Eurasia |

Source: Various; The Beijing Axis Analysis
The Belt and Road Initiative has an impact on social, political and economic relations between Africa and China – with the potential to open up new opportunities in various areas of business.
In recent years, the focus of BRICS has gradually expanded from working towards mutual benefit via financial and ICT cooperation to addressing issues related to global security and international political economy.

Background of BRICS (2009 – Present)
BRICS refers to the partnership of five nations — Brazil, Russia, India, China, and South Africa — which have agreed to cooperate on number of issues, ranging from geopolitics, infrastructure and development finance to national security. The original group (calling itself ‘BRIC’) did not include South Africa, but recognized South Africa’s membership in 2011. BRICS is known for its New Development Bank (NDB) which provides financing for a range of infrastructure and energy projects.

2018 BRICS Summit, Johannesburg
- Theme: Collaboration for Inclusive Growth and Shared Prosperity in the 4th Industrial Revolution
- Key topics: Global Governance and Security, intra-BRICS trade, and shared prosperity among members with regards to 4th industrial revolution
- The Johannesburg Declaration: Member nations agree to create “broad counter-terrorism coalition.” In addition, a “Roadmap” on cooperation within ICT sector was signed, citing security concerns

Source: New Development Bank; Various; The Beijing Axis Analysis
The Forum on China-Africa Cooperation (FOCAC) is a strategic mechanism for collaboration between China and Africa – must be seen strategically in this horizon and beyond.

### Key Developments at Past FOCAC Meetings

<table>
<thead>
<tr>
<th>Year (Ministerial Conference)</th>
<th>Location</th>
<th>Key Developments/Planned Agenda</th>
</tr>
</thead>
</table>
| 2000 (1st Ministerial Conference) | Beijing           | - Adoption of Beijing Declaration of the FOCAC  
- Exemption of RMB 10bn of debts by China of heavily indebted countries  
- Establishment of the Human Resources Development Fund for Africa |
| 2003 (2nd Ministerial Conference) | Addis Ababa       | - China pledged to train 10,000 African professionals in various fields  
- Zero-tariff treatment of selected exports to China by some African countries |
| 2006 (3rd Ministerial Conference) | Beijing           | - Measures to strengthen cooperation to support development in Africa, including increased assistance, provision of preferential loans, establishment of the China-Africa Development Fund (CADFund), etc. |
| 2009 (4th Ministerial Conference) | Sharm el-Sheikh     | - USD 10bn committed towards measures covering agriculture, environmental protection,, investment, market access expansion, etc. |
| 2012 (5th Ministerial Conference) | Beijing           | - USD 20bn to assist with infrastructure & agricultural development  
- A series of new measures to support Africa's development in investment and financing, assistance, integration, non-government exchanges and security |
| 2015 (6th Ministerial Conference) | Johannesburg      | - Infrastructure development from AIIB and New Development Bank  
- Improving Africa's healthcare system – post Ebola  
- Increased focus on security, stabilisation and conflict resolution in Africa |
| 2018 (7th Ministerial Conference) | Beijing           | - Aid in development of agriculture, water conservation for Africa  
- USD 10bn towards industrial capacity cooperation  
- China direct investment in Africa to increase to USD 100bn by 2020 |

Source: FOCAC; The Beijing Axis Analysis
At the 2018 Beijing Summit and the 7th Ministerial Conference of FOCAC, China announced significant efforts in re-branding its relationship with Africa

President Xi Detailed the 8 Major Initiatives Announced at FOCAC 2018

1. **Industrial Promotion**

   In trade and investment, and agriculture; building and upgrading selected economic and trade cooperation zones in Africa

2. **Infrastructure Connectivity**

   China will support African countries in making better use of financing resources such as the AIIB, NDB and the SRF, etc.

3. **Trade Facilitation**

   Increasing non-resource product imports from Africa; marketing activities for Chinese and African products etc.

4. **Green Development**

   50 exchange and cooperation projects linked to climate change, environment and wildlife protection etc.

5. **Capacity Building**

   Setting up 10 vocational training workshops; providing Africans government scholarships, training opportunities etc.

6. **Health Care**

   Upgrading 50 medical and health aid programs and China-Africa Friendship Hospitals; training medical specialists

7. **People-to-people Exchange**

   China will establish an Institute of African Studies; the China-Africa Joint Research and Exchange Plan will be upgraded etc.

8. **Peace and Security**

   Setting up of a China-Africa peace and security fund; China to continue providing military aid to the African Union etc.
At FOCAC 2015, China pledged USD 60bn in financing to Africa. At FOCAC 2018, the Chinese government will be providing an additional USD 50bn, with Chinese companies investing USD 10bn.

First USD 60bn Pledged to Africa at FOCAC 2015
- Preferential and concessional loans (35)
- Grants and interest-free loans (10)
- China-Africa Development Fund (5)
- Special loan for development of African SME's (5)
- China-Africa production capacity co-operation fund (5)

Second USD 60bn Pledged to Africa at FOCAC 2018
- Grants, interest-free loans and concessional loans (15)
- Credit lines (10)
- Special fund for development financing (20)
- Special fund for financing imports from Africa (10)
- Investment over next three years (10)

Source: Mail & Guardian; The Beijing Axis Analysis
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China’s trade with Africa has grown at an accelerated rate since the turn of the century, reaching its peak in 2014 at USD 221bn. This growth has been in conjunction with burgeoning industrialisation, an export-led growth policy in China, and a rapidly growing African market.

**Total Africa-China Trade in Goods (USD bn, 2002-2017)**

Note: 1. Trade data is using China reported data
2. Africa includes 54 African countries based on UN
Source: UN Comtrade; The Beijing Axis Analysis

Decline in imports primarily due to drop in crude oil and gold prices, which are the top two biggest imports from Africa.
Africa’s overall exports to China are made up of raw materials (metals & minerals, and fuels), and is led by South Africa and Angola.
Africa’s overall imports from China are diverse, but are dominated by two major sectors: machinery and textiles. The three top importers are South Africa, Nigeria, and Egypt respectively.
Africa’s total trade with China was USD 171bn in 2017, 7.8% of its GDP. As a whole, the continent ran a trade deficit of USD 19bn with China.

Balance of Trade Between African Countries and China (USD mn, 2017)

- 31% of African countries ran a trade surplus with China in 2017. Angola was the highest at USD 18.4bn.
- Djibouti’s trade deficit with China of USD 2.1bn exceeds its GDP.
- Equatorial Guinea only traded USD 1.6bn worth of goods with China in 2017, of which it had a trade surplus of USD 1.3bn.
- Some smaller African nations have little or no exports to China.

---

1. Figures to the UN reported by each respective country
Source: UN Comtrade; The Beijing Axis Analysis
Value of China-Africa trade has grown significantly over the past two decades, but composition of China’s imports from Africa has remained largely concentrated in primary products, while exports to the continent tend to be value-added products.

Sectorial Breakdown of Imports and Exports between China and Sub-Saharan Africa\(^1\) (USD mn, 2002-2017)

2015’s decrease in imports was caused mostly by 99% drop in goods classified by the World Bank as ‘miscellaneous’.

Narrowing of trade in 2009 mirrors global trend in trade for that year due to the global financial crisis.

1. World Bank trade statistics only has Sub-Saharan Africa as a region, with sectorial trade data breakdown

Source: WITS; The Beijing Axis Analysis
The results of free trade zones in African countries have been highly varied, with commitment by government and policy consistency cited as core determinants of success.

### Special Economic Zones (SEZ) in Africa

![Map of African SEZ in Cooperation with China]

#### Description of African SEZ in Cooperation with China

<table>
<thead>
<tr>
<th>Country</th>
<th>Name of Zone</th>
<th>Area (ha)</th>
<th>Incentives</th>
<th>No. of Firms¹</th>
<th>Success²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>TEDA Suez Economic and Trade Cooperation Zone</td>
<td>600</td>
<td>Prime location, tax relief, bonded warehousing and comprehensive logistics infrastructure</td>
<td>58</td>
<td>High</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Eastern Industrial Zone</td>
<td>200</td>
<td>Extensive tax and duty exemptions, streamlined government services</td>
<td>27</td>
<td>High</td>
</tr>
<tr>
<td>Zambia</td>
<td>China-Zambia Economic and Trade Cooperation Zone</td>
<td>1,158</td>
<td>Tax exemption on dividends for five years from the year of first declaration of dividends; 0% corporate tax for five years from the first year profits are made</td>
<td>38</td>
<td>Medium/Low</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Jinfei Economic and Trade Cooperation Zone</td>
<td>352</td>
<td>Tax exemptions and raw material import tariff waiver</td>
<td>-</td>
<td>Low</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Lekki Free Trade Zone</td>
<td>3,000</td>
<td>Halved corporate and local income tax rate, inexpensive land and facility use</td>
<td>21</td>
<td>Low</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Ogun-Guangdong Free Trade Zone</td>
<td>250</td>
<td>VAT waiver, customs streamlining, reduced corporate and income tax</td>
<td>16</td>
<td>Low</td>
</tr>
<tr>
<td>Djibouti</td>
<td>Djibouti International Free Trade Zone</td>
<td>4,800</td>
<td>The initial USD 370mn, 240-hectare pilot phase consists of four industrial clusters which will focus on trade and logistics, export processing, business and financial support services, as well as manufacturing and duty-free merchandise retail</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ No. of Firms refers to the number of companies that have signed lease agreements in the zone

² Efficiency is based on whether the zone has been able to generate an abundance of business activity

Source: Various; The Beijing Axis Analysis
## Trade Frameworks / Agreements between China and Africa

<table>
<thead>
<tr>
<th>Subject</th>
<th>Developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Multilateral Frameworks</strong></td>
</tr>
<tr>
<td></td>
<td>• Since 2011, the Chinese government has signed Framework Agreements on Economic and Trade Cooperation with both the East African Community (EAC) and the Economic Community of West African States (ECOWAS)</td>
</tr>
<tr>
<td></td>
<td>• The frameworks look to expand cooperation in promoting trade facilitation, direct investment, cross-border infrastructure construction and development aid</td>
</tr>
<tr>
<td></td>
<td>• China had been negotiating the establishment of a free trade agreement with EAC since 2016</td>
</tr>
<tr>
<td></td>
<td>• Recently, China and the Southern African Customs Union (SACU) have been negotiating a Free Trade Agreement</td>
</tr>
<tr>
<td></td>
<td>• Kenya declined to sign the China-EAC free trade agreement in 2018 on the grounds that this would threaten its fragile manufacturing sector</td>
</tr>
<tr>
<td>2</td>
<td><strong>Bilateral Frameworks</strong></td>
</tr>
<tr>
<td></td>
<td>• Thus far, there’s no free trade agreements between any African countries or communities / blocs with China. However, there are some African countries in advanced discussions with China about Free Trade Agreements</td>
</tr>
<tr>
<td></td>
<td>• There are several bilateral trade agreements or frameworks existing between China and several African countries, such as Malawi, Nigeria, and Kenya</td>
</tr>
<tr>
<td></td>
<td>• Mauritius looks set to become the first African country to sign an FTA with China after months of negotiations</td>
</tr>
<tr>
<td></td>
<td>• At FOCAC 2018, minister-level officials from both sides signed a memorandum of understanding around the conclusion of FTA negotiations</td>
</tr>
</tbody>
</table>

Source: Various; The Beijing Axis Analysis
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China’s OFDI into Africa has been increasing rapidly over time and is primarily channeled towards the construction, transport, manufacturing, mining and finance sectors.

**China’s OFDI Stock and Flow in Africa (USD bn, 2006-2017)**

**China’s OFDI Stock in Africa by Industry (USD bn, 2017)**

Source: UNCTAD; MOFCOM; The Beijing Axis Analysis
In 2016, China’s OFDI flow into Africa accounted for less than 3% of global OFDI flow into Africa. However, its OFDI stock in Africa ranked 4th among all investor economies in Africa.

Global and China’s OFDI Flow to Africa (USD bn, 2011-2016)


In 2017, China’s OFDI flow into Africa increased by 71% from 2016.

Source: National Bureau of Statistics; MOFCOM; The Beijing Axis Analysis
In 2017, China’s total OFDI flow into Africa was USD 4.1bn. As of 2017, South Africa holds the largest amount of China’s OFDI stock in Africa.

China’s OFDI Flow to Africa by Country (USD mn, 2017)

China’s OFDI Stock in Africa by Country (USD bn, 2017)

Source: MOFCOM; The Beijing Axis Analysis
China’s role in Africa is more of a contractor and builder than a financier. Providing an alternative to loans with rigid conditions, China has promoted development in a diverse range of African countries through the provision of credit.

Source: SAIS-CARI; The Beijing Axis Analysis
Chinese loans to African countries have progressively risen over the past decade. The 2017 investment slump relates to efforts to curb the country’s massive build-up of local-government debt and a slowdown of the Chinese economy.


Source: UN Comtrade; China-Africa Research Initiative (CARI); The Beijing Axis Analysis

Sectorial Composition of Chinese Loans to Africa (USD bn, 2017)

In 2016, President Xi Jinping pledged USD 60bn to African states over an undefined timeline.
Chinese financial institutions have established their branches within coastal countries in Africa and provide regional services, with South Africa being a prime choice.

### Chinese Financial Institutions with Large African Presences

<table>
<thead>
<tr>
<th>Institution</th>
<th>Africa Role / Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXIM Bank of China</td>
<td>The vast majority of infrastructure financing arrangements done by China in the African continent are financed by the China EXIM Bank, which (like any trade bank) is devoted primarily to providing export sellers’ and buyers’ credits to support the trade of Chinese goods</td>
</tr>
<tr>
<td>Industrial and Commercial Bank of China</td>
<td>ICBC bought a 20 percent share of South Africa’s Standard Bank for USD 5.1bn in 2007. Standard Bank’s impressive access to the African market, backed by Chinese capital is set to transform the continent as Chinese acquisitions expand and accelerate</td>
</tr>
<tr>
<td>Bank of China</td>
<td>Committing itself to providing high-quality bespoke financial services and actively developing Renminbi Internationalization throughout the African continent</td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>The business targets clients in the integrated energy, communication, mining, financial services, trading, logistics, manufacturing and media industries in 47 countries across the sub-Saharan region</td>
</tr>
<tr>
<td>CADFund</td>
<td>Its mission is to support African countries’ agriculture, manufacturing, and energy sectors development; to expand transportation and telecommunications networks; and to promote the pace of urban infrastructure, resource extraction and the establishment of trade zones, or Chinese business centers, in Africa</td>
</tr>
<tr>
<td>China UnionPay</td>
<td>By 2013, UnionPay credit cards were enabled for use with ATMs in more than 40 African countries, though the cards were all issued in China</td>
</tr>
</tbody>
</table>

Source: Various; The Beijing Axis Analysis
The energy sector in Africa is one of the largest recipients of credit from China. The credit is primarily dispensed through Chinese policy banks. Loans to the continent are highly concentrated among the top 6 recipients.

**China’s Main Lenders – Energy Sector**

**Chinese Development Bank:**
- CDB is the main institution responsible for funding the Chinese national government’s developmental objectives.
- Has lent USD 127.4bn in overseas development finance in the energy sector since 2000.

**Export-Import Bank of China:**
- EXIM Bank is one of China’s primary policy banks.
- Has lent USD 70.3bn in overseas development finance in the energy sector since 2000.
- Co-financed projects worth USD 28.1bn with the Chinese Development Bank.


<table>
<thead>
<tr>
<th>Country</th>
<th>Loan Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe/Central Asia</td>
<td>34.8bn</td>
</tr>
<tr>
<td>Latin America</td>
<td>68.7bn</td>
</tr>
<tr>
<td>Asia</td>
<td>60.3bn</td>
</tr>
<tr>
<td>Africa</td>
<td>61.9bn</td>
</tr>
</tbody>
</table>

**Top 5 Energy Sector Loan Recipients (USD bn)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Loan Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>42.7bn</td>
</tr>
<tr>
<td>Brazil</td>
<td>39.3bn</td>
</tr>
<tr>
<td>Pakistan</td>
<td>24.8bn</td>
</tr>
<tr>
<td>Angola</td>
<td>8.9bn</td>
</tr>
<tr>
<td>India</td>
<td>7.7bn</td>
</tr>
</tbody>
</table>

**Loans to Africa’s Energy Sector (USD bn, 2000-2017)**

- Total: USD 34.8bn
- Top 6 loan recipients receive USD 23.8bn, almost 70% of the total.

Source: Boston University Global Policy Development Centre; The Beijing Axis Analysis.
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Although revenues generated by the top 250 international contractors outside their home countries decreased between 2015 and 2017, Chinese companies continue to dominate this market, when compared with other major global players.

Nationality of Top 250 International Contractors* (2018)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Contractors</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>64</td>
</tr>
<tr>
<td>Turkey</td>
<td>46</td>
</tr>
<tr>
<td>US</td>
<td>43</td>
</tr>
<tr>
<td>Italy</td>
<td>14</td>
</tr>
<tr>
<td>Japan</td>
<td>13</td>
</tr>
<tr>
<td>South Korea</td>
<td>11</td>
</tr>
<tr>
<td>Spain</td>
<td>11</td>
</tr>
<tr>
<td>All Others</td>
<td>48</td>
</tr>
</tbody>
</table>

International Revenue Percentage Share (%, 2017)

- China: 23.7%
- Spain: 13.9%
- South Korea: 7.6%
- Turkey: 6.9%
- Italy: 6.3%
- US: 5.3%
- Germany: 6.9%
- Others: 4.8%
- All Others: 3.9%

Note: *ENR’s list of top 250 international contractors is based on contractor’s total overseas revenue collected in the previous year (2016)

Source: ENR; The Beijing Axis Analysis
China has become the top international contractor in Africa with Chinese contractors claiming a 52% share of the USD 74.5bn in revenues from these activities. China’s ‘Going out Policy’ has underpinned a rapidly increased Chinese presence in Africa over the last decade.

International Contracted Revenue in Africa\(^1\) (USD mn, 2007-2018)

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>Italy</th>
<th>France</th>
<th>US</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>60,590</td>
<td>64,515</td>
<td>70,950</td>
<td>62,236</td>
<td>58,149</td>
</tr>
<tr>
<td>2017</td>
<td>74,450</td>
<td>70,410</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. The revenue figures are for the previous calendar year.
Source: ENR; The Beijing Axis Analysis
Chinese contractor activity in Africa is highly concentrated in a few resource-rich economies as well as geo-strategic partners of China.

Revenue of Chinese Contractors in Africa, Top 30 Countries (USD mn, 2014)

- **Top 6:** Mostly oil and gas-related economies; USD 28.7bn or 40% of total
- **Rank 7 to 17:** Oil and minerals-related economies; USD 15.9bn or 22% of total
- **Rank 18 to 30:** Diverse minor players; USD 5.3bn or 7.5% of total

Source: China Statistical Yearbook 2015; The Beijing Axis Analysis
Chinese companies have invested in infrastructure projects across the African continent and in diverse areas – cities, ports, railways, power, etc. (1/2)

10 Significant Chinese Infrastructure Projects in Africa and their Locations

### Highlights of these 10 Significant Chinese Infrastructure Projects in Africa (1/2)

<table>
<thead>
<tr>
<th>No.</th>
<th>Project</th>
<th>Company</th>
<th>Years</th>
<th>Status</th>
<th>Value (USD)</th>
<th>Location</th>
<th>Financiers</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Algeria East-West Highway</td>
<td>China Railway Construction Corporation, CITIC</td>
<td>2009-</td>
<td>Ongoing</td>
<td>6.0bn</td>
<td>Algeria</td>
<td>Govt. of Algeria</td>
<td>Chinese companies are building the central &amp; western sections</td>
</tr>
<tr>
<td>2</td>
<td>Central Business District of Egypt's new capital</td>
<td>China State Construction Engineering Corporation</td>
<td>2018-</td>
<td>Ongoing</td>
<td>3.0bn</td>
<td>Egypt</td>
<td>Chinese banks (85%)</td>
<td>The new capital is a mega project worth USD 45bn</td>
</tr>
<tr>
<td>3</td>
<td>Mambila Hydroelectric Power Project</td>
<td>JV of China Civil Engineering Construction Corporation</td>
<td>2017-</td>
<td>Approved</td>
<td>5.8bn</td>
<td>Nigeria</td>
<td>EXIM Bank of China (85%)</td>
<td>Will help Nigeria fulfill its commitment under the Paris Agreement</td>
</tr>
<tr>
<td>4</td>
<td>Lagos-Calabar Coastal Railway</td>
<td>China Civil Engineering Construction Corporation</td>
<td>2018-</td>
<td>Proposed</td>
<td>11.0bn</td>
<td>Nigeria</td>
<td>EXIM Bank of China (85%)</td>
<td>Financing is yet to be approved in the National Assembly</td>
</tr>
<tr>
<td>5</td>
<td>Addis Ababa-Djibouti Railway</td>
<td>China Railway Group, CRCC</td>
<td>2011-2017</td>
<td>Opened</td>
<td>4.5bn</td>
<td>Ethiopia, Djibouti</td>
<td>EXIM Bank of China, CDB, ICBC</td>
<td>90% of Ethiopia’s trade passes through Djibouti</td>
</tr>
</tbody>
</table>

Source: Various; The Beijing Axis Analysis
Chinese companies have invested in infrastructure projects across the African continent and in diverse areas – cities, ports, railways, power, etc. (2/2)

10 Significant Chinese Infrastructure Projects in Africa and their Locations

![Map of Africa with project locations marked]

### Highlights of these 10 Significant Chinese Infrastructure Projects in Africa (2/2)

<table>
<thead>
<tr>
<th>No.</th>
<th>Project</th>
<th>Company</th>
<th>Years</th>
<th>Status</th>
<th>Value (USD)</th>
<th>Location</th>
<th>Financiers</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Garissa Solar Power Station</td>
<td>China Jiangxi</td>
<td>2016-</td>
<td>Ongoing</td>
<td>135mn</td>
<td>Kenya</td>
<td>EXIM Bank of China</td>
<td>Will power about 625,000 homes on completion</td>
</tr>
<tr>
<td>7</td>
<td>Mombasa-Nairobi Standard Gauge Railway</td>
<td>China Road and Bridge Corporation</td>
<td>2014-2017</td>
<td>Opened</td>
<td>3.6bn</td>
<td>Kenya</td>
<td>EXIM Bank of China (90%)</td>
<td>Largest infrastructure project in Kenya since its independence</td>
</tr>
<tr>
<td>8</td>
<td>Bagamoyo Port</td>
<td>China Merchants Group</td>
<td>2018-</td>
<td>Approved</td>
<td>11.0bn</td>
<td>Tanzania</td>
<td>CMPHC, Sovereign Wealth fund of Oman</td>
<td>Will become the largest port in East Africa on completion</td>
</tr>
<tr>
<td>9</td>
<td>Lobito-Luau Railway</td>
<td>China Railway Construction Corporation</td>
<td>2006-2014</td>
<td>Opened</td>
<td>1.8bn</td>
<td>Angola</td>
<td>China International Fund</td>
<td>Part of an ambitious plan to connect the Atlantic &amp; Indian oceans by rail</td>
</tr>
<tr>
<td>10</td>
<td>Modderfontein New City</td>
<td>Zendai Group</td>
<td>2015-</td>
<td>Ongoing</td>
<td>8.0bn</td>
<td>South Africa</td>
<td>Zendai Group</td>
<td>A new urban district located 20 km from Johannesburg</td>
</tr>
</tbody>
</table>

Source: Various; The Beijing Axis Analysis
At present, a large spectrum of power generation projects are contracted to Chinese companies across Sub-Saharan Africa.

Greenfield Power Projects Contracted to Chinese Companies in Sub-Saharan Africa (2010 - 2020)

Source: OECD/IEA; The Beijing Axis Analysis
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The political relationship between South Africa and China has progressed through four distinct phases

Pre-1998: Limited Contact and Hostility
- During the 19th century, the first Chinese community, comprising labourers taken to work in the gold mines, settled in South Africa
- Largely non-existent/hostile relationship - South Africa’s Air Force fought with the United Nations against PRC’s People’s Liberation Army during the Korean War
- South Africa’s growing isolation during the Apartheid era led PW Botha to establish official relations with ROC in 1980
- Following hostilities, resulting from the Sino-Soviet split, a 1982 meeting between OR Tambo and PRC Premier Zhao Ziyang normalised ties between PRC and ANC/SACP
- Mandela administration resolves to shift diplomatic relations from ROC to PRC

- South African government of national unity looked to allow new leadership to forge a strategic relationship without being encumbered by the past
- Establishment of bi-national commission under the Pretoria Declaration of 2000
- Pretoria Declaration entrenched commitment to building economic prosperity in the relationship
- Bilateral relations seen as a vehicle for cooperation on continental issues in Africa like security and development

Strategic Partnership (2004 – 2010)
- Growing convergence between South Africa and China on global outlook and developmental concerns
- Second bi-national commission elevated bilateral relations to ‘Strategic Partnership’ status
- South Africa grants China ‘market status’
- Zuma administration promotes a more Asian-style development approach

Comprehensive Strategic Partnership (2010 – present)
- Concrete pivot to China by South Africa and indication that SA features more centrally in China’s African and international endeavours
- Beijing Declaration elevates relations to ‘Comprehensive Strategic Partnership’ status
- Mutual commitment to restructuring trade relations to grow value-added exports from South Africa to China

2018 Outcomes:
- Agreements were signed to strengthen high-level exchanges, deepen mutual trust, align development strategies, promote practical cooperation and increase people-to-people exchanges
- Both countries pledged to carry forward their traditional friendly relations and advance their comprehensive strategic partnership in the new era

Source: Various; The Beijing Axis Analysis
According to official Chinese sources, the size of South African exports to China is fundamentally determined by gold prices. Whilst Chinese imports have risen significantly in the last decade, its exports have remained relatively constant.

Precious metals being SA’s main exports to China, trade between the two countries grew significantly from 2009 to 2012 owing to gold prices rising by 93% in that period.

Global gold prices decreased by 37% from 2013 to 2016. The overall decrease in South African exports to China during this period is attributable to this change.

Trade balance line contradicts SA’s perspective. For further information, please see page 51 & 52.

Bilateral trade volumes begin to grow in 2017 as commodity prices recover. Trade growth expected to continue as China seeks to grow imports, as indicated with the CIIE held in 2018 where SA was a ‘Guest of Honour’ country.

Trade declined in 2009 due to the effects of the global financial crisis.

Note: Whilst UN Comtrade was the primary source used, National Bureau of Statistics of China data was also referenced.

Source: National Bureau of Statistics; UN Comtrade; The Beijing Axis Analysis.
According to the official South African reports\(^1\), SA-China trade has grown substantially since the establishment of relations. Reaching its peak in 2013, the total value of trade gradually declined over the next three years.

**Total SA-China Trade in Goods (USD bn, 2000-2017)**

- **Official South African perspective**
- SA did not report gold numbers. For further information, please see page 51 & 52
- Trade declined in 2009 due to the effects of the global financial crisis
- Beijing Declaration signed in 2010 with the goal of increasing bilateral trade
- President Zuma remarks on the unsustainability of an unequal trade relationship with China
- Following a peak in 2013, lower commodity prices contributed to lower trade values
- President Zuma remarks on the unsustainability of an unequal trade relationship with China

Note: Whilst UN Comtrade was the primary source used, South African Revenue Services data was also referenced. Source: South African Revenue Services; UN Comtrade; The Beijing Axis Analysis
Since 2008, the difference in bilateral trade data as reported by official Chinese and South African sources grew substantially. There tend to be various reasons for discrepancies, including misinvoicing and indirect trade.

**Main Causes of Discrepancies in Trade Data**

- **Misinvoicing**: Falsification of the value or volume of an international commercial transaction of goods or services by at least one party to the transaction. Often traders do this to avoid taxes and tariffs, this is particularly the case with products that have an export levy.
- **Indirect Trade**: Goods are not shipped directly to their final destination, but through another country first.
- **Categorisation**: Differing classifications of goods between two parties to bilateral trade flows.
- **Lack of Data Specificity**: Trade partners are sometimes not disclosed for specific product groups.
- **Freight and Insurance**: Often exporters report trade value exclusive of insurance and transport, whereas importers report values that include these.
- **Reporting Lag**: Imports may be recorded with lags, creating mismatches in mirror values of bilateral imports and exports.

Source: UN Comtrade; World Bank; UNCTAD; The Beijing Axis Analysis
One of the primary causes of the discrepancies in trade statistics between South Africa and China is that South Africa did not attribute its gold exports to specific partners; but this misreporting only partially explains the discrepancy.

### Total Trade Data Discrepancy Composition (USD bn, 2017)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Discrepancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>15.5</td>
</tr>
<tr>
<td>Metals and Minerals</td>
<td>0.2</td>
</tr>
</tbody>
</table>

**Source:** UN Comtrade; World Bank; UNCTAD; The Beijing Axis Analysis

### Sectorial Composition of Discrepancy, Excluding Metals and Minerals (USD mn, 2017)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Discrepancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Forestry</td>
<td>725</td>
</tr>
<tr>
<td>Textiles, Hides and Skins</td>
<td>297</td>
</tr>
<tr>
<td>Chemicals and Plastics</td>
<td>351</td>
</tr>
<tr>
<td>Fuels</td>
<td>300</td>
</tr>
<tr>
<td>Machinery and Electrical Equipment</td>
<td>17</td>
</tr>
<tr>
<td>Transport Manufactures</td>
<td>50</td>
</tr>
<tr>
<td>Others</td>
<td>40</td>
</tr>
<tr>
<td>China's imports from SA</td>
<td>11</td>
</tr>
<tr>
<td>South Africa's exports to China</td>
<td>2</td>
</tr>
</tbody>
</table>

### Composition of Discrepancy by Product Category in Metals and Minerals (USD bn, 2017)

<table>
<thead>
<tr>
<th>Category</th>
<th>Discrepancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>1.30</td>
</tr>
<tr>
<td>Platinum</td>
<td>2.28</td>
</tr>
<tr>
<td>Minerals</td>
<td>3.95</td>
</tr>
<tr>
<td>Diamonds</td>
<td>7.07</td>
</tr>
<tr>
<td>Gold</td>
<td>0.90</td>
</tr>
</tbody>
</table>

### Comparison of Major Importers of South African Gold by Size of Imports as Reported by Importer (USD bn, 2017)

<table>
<thead>
<tr>
<th>Importer</th>
<th>Size of Gold Imports From SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4</td>
</tr>
<tr>
<td>India</td>
<td>2</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.7</td>
</tr>
<tr>
<td>Italy</td>
<td>0.4</td>
</tr>
<tr>
<td>Canada</td>
<td>0.3</td>
</tr>
<tr>
<td>USA</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Gold imports from South Africa as reported by other countries is just over USD 16bn, while the total global exports of gold reported by South Africa is only USD 4.96bn.
While South Africa’s overall exports and China’s total imports are fairly diversified, Chinese imports from South Africa are highly concentrated around metals and minerals. The bulk of the flow of goods from South Africa to China is composed of primary commodities.

Sectorial Composition and Comparison of China’s Global Exports and Exports to SA, SA’s Global Exports, China’s Global Imports and China’s Imports from SA (%, 2017)

Note: 1. Trade data reported by South Africa
2. Trade data reported by China
3. This representation is based on Chinese-reported trade data as South African sources omit certain major goods categories from their reports.

Source: World Bank; The Beijing Axis Analysis
South Africa is a market for most of China’s top exports, but exports to South Africa account for a marginal proportion of China’s total exports. These exports consist primarily of electronics, machinery and household items.

**China’s Top 100 Global Exports and Respective Exports to South Africa (USD mn, 2017)**

<table>
<thead>
<tr>
<th><strong>China’s Global Exports</strong></th>
<th><strong>SA’s Imports from China</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
<td></td>
</tr>
<tr>
<td>Data processing machines</td>
<td></td>
</tr>
<tr>
<td>Integrated circuits</td>
<td></td>
</tr>
<tr>
<td>Machinery parts</td>
<td></td>
</tr>
<tr>
<td>Monitors and projectors</td>
<td></td>
</tr>
<tr>
<td>Vehicle parts</td>
<td></td>
</tr>
<tr>
<td>Light fixtures</td>
<td></td>
</tr>
<tr>
<td>LCD’s</td>
<td></td>
</tr>
<tr>
<td>Trunks and cases</td>
<td></td>
</tr>
<tr>
<td>Semiconductor Devices</td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td></td>
</tr>
<tr>
<td>Refined petroleum</td>
<td></td>
</tr>
<tr>
<td>Electrical Transformers</td>
<td></td>
</tr>
<tr>
<td>Non-Knit women’s suits</td>
<td></td>
</tr>
<tr>
<td>Models and stuffed animals</td>
<td></td>
</tr>
<tr>
<td>Seats</td>
<td></td>
</tr>
<tr>
<td>Insulated Wire</td>
<td></td>
</tr>
<tr>
<td>Rubber footwear</td>
<td></td>
</tr>
<tr>
<td>Electric heaters</td>
<td></td>
</tr>
<tr>
<td>Industrial printers</td>
<td></td>
</tr>
<tr>
<td>Passenger and cargo ships</td>
<td></td>
</tr>
<tr>
<td>Other plastic products</td>
<td></td>
</tr>
<tr>
<td>Knit sweaters</td>
<td></td>
</tr>
<tr>
<td>Microphones and headphones</td>
<td></td>
</tr>
<tr>
<td>Knit women’s suits</td>
<td></td>
</tr>
<tr>
<td>Elect. Protection Equip.</td>
<td></td>
</tr>
<tr>
<td>Air conditioners</td>
<td></td>
</tr>
<tr>
<td>Valves</td>
<td></td>
</tr>
<tr>
<td>Pneumatic tyres</td>
<td></td>
</tr>
<tr>
<td>Printed Circuit Boards</td>
<td></td>
</tr>
<tr>
<td>Video and card games</td>
<td></td>
</tr>
<tr>
<td>Air pumps</td>
<td></td>
</tr>
<tr>
<td>Textile footwear</td>
<td></td>
</tr>
<tr>
<td>Broadcasting accessories</td>
<td></td>
</tr>
<tr>
<td>Flat-rolled Iron</td>
<td></td>
</tr>
<tr>
<td>Synthetic filament yarn</td>
<td></td>
</tr>
<tr>
<td>Non-Knit men’s suits</td>
<td></td>
</tr>
<tr>
<td>Electric batteries</td>
<td></td>
</tr>
<tr>
<td>Jewellery</td>
<td></td>
</tr>
<tr>
<td>Other electrical machinery</td>
<td></td>
</tr>
<tr>
<td>Electric motors</td>
<td></td>
</tr>
<tr>
<td>Structures of iron or steel</td>
<td></td>
</tr>
<tr>
<td>Motor-working tools</td>
<td></td>
</tr>
<tr>
<td>Motion equipment</td>
<td></td>
</tr>
<tr>
<td>Sports equipment</td>
<td></td>
</tr>
<tr>
<td>Electric filament</td>
<td></td>
</tr>
<tr>
<td>Computers</td>
<td></td>
</tr>
<tr>
<td>Leather footwear</td>
<td></td>
</tr>
<tr>
<td>Other knitted fabrics</td>
<td></td>
</tr>
<tr>
<td>Non-Knit women’s coats</td>
<td></td>
</tr>
<tr>
<td>Refrigerators</td>
<td></td>
</tr>
</tbody>
</table>

**China’s total exports:** USD 2.26tn

**Top 50 Shown:** USD 1.24tn 54.8%

**Size of top 50 exports to SA:** USD 7.5bn

**Top 100 Shown:** USD 1.54tn 68%

**Size of top 100 exports to SA:** USD 9.4bn

Source: UN Comtrade; The Beijing Axis Analysis
There are currently no ongoing Free Trade Agreement negotiations between South Africa and China. Official discussions on an FTA were initiated in 2005, but subsequently abandoned primarily due to concerns among South African and other regional stakeholders. There are active efforts to enhance bilateral trade relations.

**A South Africa-China Free Trade Agreement**

<table>
<thead>
<tr>
<th>Positive Aspects</th>
<th>Possible Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Help South Africa to correct the trade imbalance</td>
<td>Scepticism from trade unions (aligned with the ANC)</td>
</tr>
<tr>
<td>Improve employment opportunities in South Africa</td>
<td>Disadvantage to other SACU countries, some of whom already have duty-free exports to China</td>
</tr>
<tr>
<td>Draw new sources of investment to South Africa</td>
<td>More competition between/within sectors</td>
</tr>
</tbody>
</table>

- Give mutual assignment of Most Favoured Nation (MFN) status
- Both countries have sizeable domestic markets
- Positions SA and China as regional access points for one another

**A SACU-China Free Trade Agreement**

<table>
<thead>
<tr>
<th>Positive Aspects</th>
<th>Possible Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the volume of trade between the two parties</td>
<td>No significant increase in production or employment</td>
</tr>
<tr>
<td>Greater Chinese market access for SACU exports</td>
<td>Cost of Chinese imports will cripple respective SACU industries</td>
</tr>
<tr>
<td>Draw new sources of investment to South Africa</td>
<td>Negate prospects of new industrialisation in specific sectors</td>
</tr>
</tbody>
</table>

- Southern African Customs Union (SACU) is a customs union between the Southern African countries of Botswana, Lesotho, Namibia, South Africa and Swaziland
- Recently, FTA between SACU and China has resurfaced on the trade agenda

**African Continental Free Trade Agreement (CFTA)**

- Adopted in March 2018, it is the largest trade agreement since the creation of the WTO
- Is expected to facilitate increased **intra-continental trade** in goods and services
- Will enhance market access for Chinese goods with lower barriers between different African markets

**China-Mauritius FTA**

After the third round of talks, negotiations on a China-Mauritius FTA were concluded. This will be the first FTA between China and an African country

Source: SAI; Various; The Beijing Axis Analysis
China’s FDI stock in SA has more than doubled in the last 8 years, a result of China’s ‘going out’ strategy among other factors; this is indicative of growing confidence in South Africa as a destination for capital.

China’s FDI Flow and FDI stock in South Africa (USD bn, 2006-2017)

The 2008 jump in FDI is mainly attributed to ICBC’s purchase of a 20% stake in Standard Bank.

Sector Distribution of China’s OFDI Stock in South Africa (%), 2005-2016

The bulk of investment has been within the mining sector, which is consistent with the Pretoria Declaration (2000)’s focus on expanding trade and investment. Specific areas of interest were natural resources, mining, and manufacturing.

Number of Inbound FDI Projects in Africa (2017)

The ICBC investment in Standard Bank, coupled with the CAD Fund office opening in Johannesburg, has played a significant role in increasing Chinese awareness of investment opportunities in SA.
As South Africa seeks to diversify its exports to China, expanding agricultural exports will be crucial. Access to China for South Africa’s exports has increased over time, but many strong exports remain without access as negotiations are slow.

**Market Access**

### General:
- Market access in fresh agricultural produce (fruit and meat) requires a phytosanitary/veterinary protocol to be in place between the two countries, signifying compliance with International Standards for Phytosanitary Measures (ISPMs).
- Without this there is no access for these goods to either market.

### South African Access to China:
- Agricultural goods are a core component and growth driver for SA exports to China.
- Gaining access to China for agricultural goods is a priority but a slow process.

### Chinese Access to South Africa:
- China’s exports to South Africa have been mainly machinery and electronics as well as textiles.
- Other than tariff barriers, no special barriers apply to these goods.

### Major Access Challenges:
1. Shortage of information on China’s market and regulatory conditions among SA exporters.
2. China only negotiates access for one fruit/vegetable category at a time. Generally, lower pest-carrying risk leads to faster negotiations.
3. Language barrier.
4. Shipment of fresh produce to China lengthy; maintaining freshness and quality complex.
5. Natural disaster - the drought.
6. Slow import administration process and other inefficiencies.
7. Competition from other markets, especially Australia and Chile.
10. WTO rules and regulations.

---

Source: Various; The Beijing Axis Analysis
The New Development Bank is an important tool for economic stabilisation and to make infrastructure funding available to BRICS countries.

**Key Facts about the New Development Bank (NDB)**
- **USD 50bn** in initial capital – equally funded by all members
- Long-term goal of fostering the growth potential of member countries via infrastructure projects
- Further reflection of the need for an alternative to the IMF and World Bank

**NDB Currency Reserve Pool Contribution (%, 2015)**
- The NDB currency reserve pool, known as the Contingent Reserve Arrangement (CRA), will provide liquidity to members in the event of crises.

**Loans to SA**
- Total: USD 680mn
- 3 projects financed by NDB
  - Transnet Durban Port Upgrade
    - USD 200mn
  - Eskom renewable energy project
    - USD 180mn
  - Greenhouse Gas Emissions Reduction
    - USD 300mn

**Loans to China**
- Total: USD 1,179mn
- 5 projects financed by NDB
  - Lingang Solar Power Project
    - USD 200mn
  - Putian Pinghai Bay Wind Project
    - USD 298mn
  - Luoyang Metro Project
    - USD 300mn

Source: Various; The Beijing Axis Analysis
Upshot

- Since 2002, both the Chinese and the African continental GDP have markedly outgrown average global growth. During this period of unprecedented growth, trade between China and Africa has grown at a CAGR of over 19%. Chinese investment, construction, and financing in Africa have increased dramatically.
- Formal diplomatic ties between China and African countries have formed and been expanded over the past decade. In several multilateral institutions such as BRICS and FOCAC, China cooperates closely with African member states to build towards shared goals of infrastructure development.
- China’s rapid industrialization and export-led expansion have resulted in significant trading relationships with major African economies like South Africa, Angola, and Nigeria. Many African nations run large trade deficits with China, and their composition of exports to China remains concentrated in primary products. China and Africa continue to actively pursue policies that expand trade.
- China has grown its ties to Africa through large growth in financing engagement. China’s FDI stock in Africa grew at a CAGR of 28% since 2006, with over half of FDI in mining or construction. Similarly, China’s loans to Africa grew at a CAGR of 32% between 2000 and 2015, concentrating heavily in transportation and agriculture. Chinese banks, which facilitate financing, have sprung up all over Africa.
- China has taken its expertise in large-scale urbanization and infrastructure development to Africa. Since late 2015, China has captured over half the market for contracting in Africa, building some of the largest infrastructure projects that Africa has ever seen, which include ambitious energy, transportation, and urbanization projects.
- In addition to being a large recipient of Chinese FDI, South Africa has emerged as China’s largest trading partner in Africa. South Africa and China have worked together to bring about more open trade. Like many African nations however, there remains an imbalance of composition in goods traded between China and South Africa, as most of South Africa’s exports to China are metals and minerals.
Agenda

1. Foreword
2. Feature: Chinese Engagement and Activity in Africa
3. **China Profile, Facts and Figures**
   - **Selected Macroeconomic Indicators**
   - Domestic Consumption and Foreign Trade
   - Domestic and Foreign Investment
   - Financial Indicators
   - Social Indicators
4. China in the World
5. Conclusions, Implications and Recommendations
6. About The Beijing Axis

Other Recent Research & Publications by Axis Group International / The Beijing Axis
Please contact us for access to i.e.:
1. Asian Export Guide – What to export to Asian economies and how to succeed?
2. China Export Guide – What to export to China and how to succeed?
3. 20 Years of SA-China Diplomatic ties – Looking ahead at the next phase of economic and business relations
Source: Finance Monthly
China’s GDP growth is expected to continue moderating, making it more sustainable - GDP growth rates in recent years already reflect this ‘new normal’.

China’s Real Y-o-Y GDP Growth Rate (%), 1978-2020F

- **Past periods of overheating**
- **Overheating concerns**
- **More moderate and stable growth rate**
- **Soft landing amid global uncertainty**
- **6-7% GDP growth band**
- **8-10% GDP growth band**
- **7-8% GDP growth band**

Source: The World Bank; IMF; The Beijing Axis Analysis
Growth rates in China’s east and northeast provinces have trended lower in recent years to below the national average. Growth rates in China’s western provinces remain some of the highest in the state.

North/Northeast Provinces GRP (Y-o-Y % change, 1997 – 2017E)

East Provinces GRP (Y-o-Y % change, 1997 – 2017E)

Central South Provinces GRP (Y-o-Y % change, 1997 – 2017E)

West Provinces GRP (Y-o-Y % change, 1997 – 2017E)

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Most of the provinces have kept a growth rate higher than 5%, with the exception of Tianjin and Jilin. Overall, western and central south provinces have relatively greater growth potential.

### China’s Provincial GRP (Q3 2018, Y-o-Y % change)

<table>
<thead>
<tr>
<th>Province</th>
<th>GRP %</th>
<th>Province</th>
<th>GRP %</th>
<th>Province</th>
<th>GRP %</th>
<th>Province</th>
<th>GRP %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North &amp; Northeast</strong></td>
<td></td>
<td><strong>East</strong></td>
<td></td>
<td><strong>Central South</strong></td>
<td></td>
<td><strong>West</strong></td>
<td></td>
</tr>
<tr>
<td>Beijing</td>
<td>6.7</td>
<td>Shanghai</td>
<td>6.6</td>
<td>Henan</td>
<td>7.4</td>
<td>Chongqing</td>
<td>6.3</td>
</tr>
<tr>
<td>Tianjin</td>
<td>3.5*</td>
<td>Jiangsu</td>
<td>6.7</td>
<td>Hubei</td>
<td>7.9</td>
<td>Sichuan</td>
<td>8.1</td>
</tr>
<tr>
<td>Hebei</td>
<td>6.6</td>
<td>Zhejiang</td>
<td>7.5</td>
<td>Hunan</td>
<td>7.8</td>
<td>Guizhou</td>
<td>9.0</td>
</tr>
<tr>
<td>Shanxi</td>
<td>6.1</td>
<td>Anhui</td>
<td>8.2</td>
<td>Guangdong</td>
<td>6.9</td>
<td>Yunnan</td>
<td>9.1</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>5.1</td>
<td>Fujian</td>
<td>8.3</td>
<td>Guangxi</td>
<td>7.0</td>
<td>Tibet</td>
<td>9.0</td>
</tr>
<tr>
<td>Liaoning</td>
<td>5.4</td>
<td>Jiangxi</td>
<td>8.8</td>
<td>Hainan</td>
<td>5.4</td>
<td>Shaanxi</td>
<td>8.4</td>
</tr>
<tr>
<td>Jilin</td>
<td>4.0</td>
<td>Shandong</td>
<td>6.5</td>
<td>Gansu</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>5.1</td>
<td></td>
<td></td>
<td>Qinghai</td>
<td></td>
<td>Ningxia</td>
<td>7.0</td>
</tr>
</tbody>
</table>

*Tianjin’s GRP is the lowest with only 3.5% in 2018 Q3, which could be the lag effect of the massive explosion at Tianjin port in 2015.

Note: GRP=Gross Regional Product, defined as a monetary measure of the market value of all final goods and services produced in a region or subdivision of a country in a period of time.

China continues to see slower growth – a ‘new’ growth trajectory is unfolding, but does this represent ‘better’ growth?

Major Economic Indicators for China

- **GDP Growth Rate (%):** 10.5, 11.2, 14.1
- **GDP per Capita (USD):** 1.36, 1.38, 1.4
- **Net Exports (USD bn):** 2.7%, 5.3%, 3.4%
- **Consumption (USD tn):** 7.8, 6.9, 6.9
  - Consumption as a % of GDP: 50%, 53%, 53%
- **Gross Investment (USD tn):** 4.6, 5.0, 5.3
  - Investment as a % of GDP: 47%, 45%, 44%
- **Govt. Debt (USD tn):** 10.5, 11.2, 14.1
  - Govt. Debt as a % of GDP: 37%, 41%, 47%

Note: 2018 estimate is from the IMF World Economic Outlook October 2018 Report
Source: World Bank; IMF; National Bureau of Statistics China; The Beijing Axis Analysis
Following years of rapid growth, China’s economy is beginning to moderate as the country undergoes a structural transformation.

Y-o-Y Change in China’s Major Economic Indicators (% 2002-2018E)

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China is slowing and the growth levers are changing - household consumption growth is accelerating, while government consumption and capital formation growth are slowing down.

**Contribution to GDP Growth (% 1998-2017)**

Note: The four components of GDP by expenditure approach are final consumption expenditure (composed of household and government consumption), gross capital formation and net exports of goods and services.

Source: China Statistical Yearbook; The Beijing Axis Analysis.
High-value services such as IT & software and leasing & business services are replacing industry and manufacturing as the primary drivers of China’s economy.

Policies to control the growth of credit and local government debt have reduced the contribution of industry — services are increasingly driving GDP growth.

China’s Share of GDP Growth by Sector (%, 2013-2018)

China’s Service Sector GDP Growth Rates (Y-o-Y %, 2015-2018)

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China’s focus is shifting inward, away from the coast – western provinces are increasingly becoming major drivers of GDP growth

China’s Fastest Growing Provinces (GDP CAGR, 2007-2012)

China’s Fastest Growing Provinces (GDP CAGR, 2012-2017)

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Megacities are on the rise in China – as new global business and consumption hubs emerge, companies will have new markets to serve and will need to alter their strategies accordingly.


<table>
<thead>
<tr>
<th>Region</th>
<th>No. of Megacities</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>15</td>
</tr>
<tr>
<td>Rest of Asia</td>
<td>16</td>
</tr>
<tr>
<td>Africa</td>
<td>1</td>
</tr>
<tr>
<td>Latin America</td>
<td>4</td>
</tr>
<tr>
<td>North America</td>
<td>2</td>
</tr>
<tr>
<td>Europe</td>
<td>2</td>
</tr>
<tr>
<td>Middle East</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
</tr>
</tbody>
</table>

Note: A ‘megacity’ is defined as a city with a population greater than 10 mn

Source: OECD; The Beijing Axis Analysis

In terms of global megacities, China dominates – with increasing urbanisation, this trend of the development of megacities is set to continue.

Major metropolises and large Tier 1 cities are still concentrated along coastal areas in Eastern China – expect this to shift westward.
China’s ongoing economic transition will entail more moderate growth – capital formation will remain a key contributor, but consumption is likely to play an increasingly bigger role.

### China’s Quarterly Y-o-Y GDP Growth Rate (%, 2012-2018)

- 2012 Q4 Y-o-Y GDP: 7.9%
- 2013 Q4 Y-o-Y GDP: 7.8%
- 2014 Q4 Y-o-Y GDP: 7.3%
- 2015 Q4 Y-o-Y GDP: 6.9%
- 2016 Q4 Y-o-Y GDP: 6.7%
- 2017 Q4 Y-o-Y GDP: 6.9%
- 2018 Q4 Y-o-Y GDP growth rate was 6.6%

### Contribution to China’s GDP (% of Total, 1999-2017)

- **Net Exports of Goods and Services**
- **Gross Capital Formation (GCF)**
- **Final Consumption Expenditure (FCE)**

- **Effect from stimulus package in 2009**

**Falling net exports contribution**

**Policy easing to provide room for growth moderation**

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Five coastal provinces account for about 40% of China’s total GDP, although this share has started to decline as the output of other provinces increases.

China’s GDP by Province (USD bn, 2017)

China’s GDP by Province (USD bn, 2017)

Geographical Distribution of China’s GDP (USD bn, 2017)

Top 5 provinces share of GDP amounts to 40.4% of total GDP

Note: Also includes the centrally-administered municipalities of Beijing, Tianjin, Chongqing and Shanghai

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Tianjin, Beijing and Shanghai, three of the centrally-administered municipalities, each have per capita incomes greater than USD 16,000.
Tianjin aside, the coastal regions are no longer China’s fastest growing regions – reflective of the government’s growing emphasis on developing inland provinces.

China’s GDP Growth Rate by Province (%, 2017)

<table>
<thead>
<tr>
<th>Province</th>
<th>GDP Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tibet</td>
<td>10.2%</td>
</tr>
<tr>
<td>Yunnan</td>
<td>9.5%</td>
</tr>
<tr>
<td>Chongqing</td>
<td>9.3%</td>
</tr>
<tr>
<td>Guizhou</td>
<td>10.0%</td>
</tr>
<tr>
<td>Jiangxi</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

Geographical Distribution of China’s GDP Growth Rate (%, 2017)

Note: Also includes the centrally-administered municipalities of Beijing, Tianjin, Chongqing and Shanghai.
The tertiary sector has been the fastest growing sector in recent years and constituted 52% of China’s GDP in 2018.

**Composition of GDP by Sector (USD tn, 1997-2018)**

Note: The primary sector includes industries involved in the extraction and collection of natural resources. The secondary sector of an economy is dominated by the manufacturing of finished products. The tertiary industry is made up of companies that primarily earn revenue by providing intangible products and services.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
While China’s secondary sector has traditionally played the largest role in the economy, the tertiary sector is now the largest contributor to the country’s GDP.
Capital formation, which is primarily concentrated in China’s larger coastal provinces, remains a large contributor to the economy - far surpassing the world average.

China’s Gross Capital Formation (2017)

- Provinces in central and western China are very dependent on capital formation.
- A bubble this size represents 1% of national total GCF.

Source: China Statistical Yearbook; The Beijing Axis Analysis
35% of final consumption in China is focused in just four coastal provinces, with Guangdong as the outright leader

Note: Final consumption includes both household consumption expenditure and government consumption expenditure
Source: China Statistical Yearbook; The Beijing Axis Analysis
During the last decade, China’s industrial value-added output growth has averaged 20% per year. However, this growth has been affected by weak overseas demand in recent years.

Industrial Value Added Output (2000-2018)

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China’s consumer confidence has also remained high and stable, reflecting the overall optimistic economic outlook generally shared by consumers.

China’s Consumer Confidence Index (2012-2018)

The calculation of the CCI combines the level of optimism that consumers have about their consumption intentions with their expectations of living standards.

CCI over 100 indicates that consumers are optimistic.

Note: The consumer confidence index measures the level of optimism that consumers have about the performance of the economy.
China’s annual inflation rate stood at 2.1% in 2018. It is expected to continue at a mild rate in 2019, allowing room for policy maneuvers for high-quality development.
China’s CPI hit a two-year low in February 2017 but subsequently increased throughout the latter part of 2017. Actual inflation rates for 2017 were lower than the year’s target of 3%

China’s Consumer Price Inflation Breakdown (% 2014-2018)

- General
- Clothing
- Transportation & Communication
- Food
- Tobacco
- Household Facilities and Articles
- Recreation, Education, Culture Articles
- Healthcare & Personal Articles
- Residence

Note: The consumer price index (CPI) shows the change in prices of a standard package of goods and services which Chinese households purchase for consumption. Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Controlling inflation is no longer a key concern for policymakers as it was in the aftermath of the global financial crisis. Inflation has fallen steadily since 2011 and appears to be leveling out.

China's Annual Consumer Price Inflation (%, 1997-2018)

- Overheating and overinvestment
- Commodity and food price pressure
- Deflation and overcapacity
- Doubling of M2 money supply

Geographical Distribution of China's Consumer Inflation (% Y-o-Y, Dec 2018)

- Provinces with Highest Inflation
- Provinces with Lowest Inflation

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Producer prices in China experienced slower growth last year compared to 2017, with the PPI for December 2018 being 0.9%.

China’s Producer Price Inflation (% 2012-2018)

Avg. Producer Price Inflation: -1.7% -1.9% -1.9% -4.6% -1.3% 6.3% 3.5%

Deflation due to depressed overseas market demand and sluggish domestic manufacturing activity.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Since 2017, China’s PPI for mining and quarrying has moderated on the back of lower commodity prices and industrial overcapacity. This has negatively affected corporate profits in the mining sector whilst reducing inflationary pressure.

China’s Producer Price Inflation Breakdown by Industry (%, 2012-2018)

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China’s PPI has been making a recovery since September 2016, after 5 years of continuous decline.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China’s manufacturing sector has begun to expand over the last few years. In the face of low inflation, there have been renewed calls for a more liberal credit policy as a means of boosting production.

China’s Purchasing Managers’ Index of the Manufacturing Industry (2014-2018)

A reading above 50 reflects expansion; below 50 reflects contraction.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
House prices in China’s major cities have adjusted through 2017. Policymakers have set restrictions on purchases in tier 1 cities to keep the prices stable.


- **Beijing**
- **Tianjin**
- **Shanghai**
- **Chongqing**
- **Guangzhou**
- **Shenzhen**

Shenzhen has the least restriction among the six Tier-1 cities.

### Sales Price Index of Residential Buildings in Selected Cities (M-o-M, 2013-2018)

- **Beijing**
- **Tianjin**
- **Shanghai**
- **Chongqing**
- **Guangzhou**
- **Shenzhen**

Shenzhen has the least restriction among the six Tier-1 cities.

---

1. Starting from Jan 2018, data is for Commercialized Buildings as the data for Residential Buildings was no longer released by government authority.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Internet penetration in China is rapidly rising, but is still very unequally distributed.

Internet penetration in China (%, 2016)

Provinces with internet penetration above 50%
Provinces with internet penetration between 40-50%
Provinces with internet penetration below 40%

China's overall internet penetration was at 53.1% as of Dec 2016.

With the increasing popularity of smartphones and the further implementation of broadband networks, regional differences in internet development in China will be further reduced.

Despite significantly lower internet penetration levels, both China and India have more internet users than the US does.

Selected Countries' Internet Penetration (%, 2016*)

US 89
Australia 85
China 53
India 35
Indonesia 20

Note: *Internet penetration rate as of 31 December 2016
Source: China Internet Watch; China Internet Network Information Center; Various; The Beijing Axis Analysis
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China’s growing retail sector is indicative of consumer confidence in the economy. Urban areas still make up an overwhelmingly large part of retail sales. However, rural retail sales are now growing at a faster rate.

**China’s Annual Retail Sales and Growth Rate by Administrative Level (1978-2017)**

Note: 1. Chinese Statistics Bureau has changed the structure of these figures since 2010. In the new category breakdown, urban includes suburban.
2. Figures converted from RMB to USD using the average exchange rate for the respective years. The growth rate, however, does not factor in exchange rate fluctuations.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Domestic consumption has increased in line with targets set within the 13th Five-Year Plan. The dramatic increase in retail sales over the past decade has made domestic consumption a key pillar of the Chinese economy.

China’s Annual Retail Sales (USD bn, 1979-2017)

China’s Monthly Retail Sales (USD bn, 2006-2018)

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China’s eastern, coastal provinces have the highest retail sales due to a large population, high employment, and high disposable income.

China’s total retail sales in 2017 was USD 5.4tn

Total retail sales of United States in 2017 was USD 5.7tn

Highlighted on the map on right
Overall, China has a trade surplus each month; however, its trade value diminishes during the Spring Festival season.
The growth rate of Chinese exports had been slowing since 2010; however, exports rebounded in 2017

China’s Annual Exports (USD bn, 1997-2018)


China’s entry into the WTO in 2002, increased its export growth rate

Source: China Customs; China Monthly Economic Indicators; The Beijing Axis Analysis
In 2017, 45% of China’s total exports went to its top 5 export partners, the US, Hong Kong, Japan, South Korea and Vietnam. Export growth to the EU, US and especially Japan has been sluggish amidst weaker demand.

China’s Top Export Destinations (USD bn, 2017)

Total Exports = USD 2,263 tn

- US 19.0%
- Hong Kong 13.0%
- Japan 10.0%
- South Korea 7.0%
- Vietnam 4.0%

Over 68% of China’s total exports went to the top 15 export partners.

Top exported commodities:
- Electrical machinery, equipment and parts
- Telecommunication, sound recording equipment and reproducing apparatus
- Automatic data processing machines and parts

Source: China Customs; The Beijing Axis Analysis
As China shifts towards high value-added exports, machinery and equipment are accounting for an ever larger portion of its exports – close to 50% of exports in 2017

### Composition of China’s Exports (USD bn, 2001-2017)

<table>
<thead>
<tr>
<th>Category</th>
<th>CAGR 2001-2017</th>
<th>2017 Growth</th>
<th>2017 Growth (Note)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>9%</td>
<td>-2.1%</td>
<td></td>
</tr>
<tr>
<td>Mineral Items</td>
<td>9%</td>
<td>31.7%</td>
<td></td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>11%</td>
<td>2.4%</td>
<td></td>
</tr>
<tr>
<td>Chemicals and Related Products</td>
<td>16%</td>
<td>15.9%</td>
<td></td>
</tr>
<tr>
<td>Products Classified by Material</td>
<td>14%</td>
<td>4.8%</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Manufactured Articles</td>
<td>12%</td>
<td>3.4%</td>
<td></td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>16%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>14%</td>
<td>7.7%</td>
<td></td>
</tr>
</tbody>
</table>

Note: Composition is according to the SITC Classification System
Source: MOFCOM; China Customs; The Beijing Axis Analysis

2017 records a growth rate of 7.7% from 2016
After experiencing consecutive negative growth rates for 2 years since 2015, the Chinese economy’s import growth rate increased by 15.8% in 2018.

**China’s Annual Imports (USD bn, 1997-2018)**

<table>
<thead>
<tr>
<th>Year</th>
<th>USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>97</td>
<td>99</td>
</tr>
<tr>
<td>99</td>
<td>01</td>
</tr>
<tr>
<td>01</td>
<td>03</td>
</tr>
<tr>
<td>03</td>
<td>05</td>
</tr>
<tr>
<td>05</td>
<td>07</td>
</tr>
<tr>
<td>07</td>
<td>11</td>
</tr>
<tr>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>15</td>
<td>17</td>
</tr>
</tbody>
</table>

**Imports**

**Imports’ Growth Rate (RHS)**

China’s entry into the WTO

**China’s Monthly Imports (USD bn, 2013-2018)**

<table>
<thead>
<tr>
<th>Year</th>
<th>USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1,950</td>
</tr>
<tr>
<td>2014</td>
<td>1,959</td>
</tr>
<tr>
<td>2015</td>
<td>1,680</td>
</tr>
<tr>
<td>2016</td>
<td>1,588</td>
</tr>
<tr>
<td>2017</td>
<td>1,843</td>
</tr>
</tbody>
</table>

**Imports**

**Imports’ Monthly Growth Rate (M-o-M, RHS)**

**Total Annual Imports (USD bn)**

Source: China Customs; The Beijing Axis Analysis
In 2017, South Korea, Japan, Taiwan, the US, and Germany were China’s top sources of imports, accounting for about 41% of China’s total imports. 

**Top Countries of Origin for China’s Imports (%, 2017)**

- South Korea: 9.6%
- Japan: 9.0%
- Taiwan: 8.4%
- US: 8.4%
- Germany: 5.3%
- Australia: 5.2%
- Brazil: 3.2%
- Malaysia: 2.9%
- Vietnam: 2.7%
- Thailand: 2.3%
- South Korea: 9.6%

**Total Imports = USD 1,841bn**

- South Korea: 178
- Japan: 166
- Taiwan: 155
- US: 154
- Germany: 97
- Australia: 95
- Brazil: 59
- Malaysia: 54
- Vietnam: 50
- Thailand: 42

**Top imported commodities:**
- Electrical machinery, equipment and parts
- Mineral fuels, mineral oils and products of their distillation
- Metalliferrous ores and metal scrap

Source: China Customs; The Beijing Axis Analysis
As a manufacturing powerhouse, China relies heavily on imported products such as machinery, chemicals and minerals; imports of foodstuffs grew a remarkable 404.4% from 2016-17

### Composition of China’s Imports (USD bn, 2001-2017)

<table>
<thead>
<tr>
<th>Category</th>
<th>CAGR 2001-2017</th>
<th>2017 Growth</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>23%</td>
<td>-44.3%</td>
<td></td>
</tr>
<tr>
<td>Foodstuffs</td>
<td>28%</td>
<td>404.4%</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Manufactured Articles</td>
<td>8%</td>
<td>-56.9%</td>
<td></td>
</tr>
<tr>
<td>Products Classified by Material</td>
<td>10%</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>Chemicals and Related Products</td>
<td>9%</td>
<td>-17.6%</td>
<td></td>
</tr>
<tr>
<td>Mineral Items</td>
<td>12%</td>
<td>-23.9%</td>
<td></td>
</tr>
<tr>
<td>Crude Materials</td>
<td>18%</td>
<td>28.9%</td>
<td></td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>13%</td>
<td>11.7%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>13%</td>
<td>12.1%</td>
<td></td>
</tr>
</tbody>
</table>

Note: SITC Classification System; Crude material: inedible, except fuels
Source: MOFCOM; China Customs; The Beijing Axis Analysis
Almost 42% of China’s total trade is with the US, Hong Kong, Japan, and South Korea. The US, China’s largest trading partner, accounted for USD 700bn, or 19% of China’s total trade, in 2017.

China’s Largest Trading Partners (%, 2017)

- **US**: 19.0%
- **Hong Kong**: 12.3%
- **Japan**: 6.1%
- **South Korea**: 4.5%
- **Germany**: 3.1%
- **Indonesia**: 3.0%
- **Vietnam**: 3.1%
- **Netherlands**: 3.0%
- **UK**: 2.5%
- **Singapore**: 2.0%
- **Japan**: 6.1%
- **South Korea**: 4.5%
- **Hong Kong**: 12.3%

**Total Exports** = USD 2,097bn
- **US**: 430
- **Hong Kong**: 279
- **Japan**: 137
- **South Korea**: 103
- **Germany**: 71
- **Vietnam**: 71
- **India**: 68
- **Netherlands**: 67
- **UK**: 57
- **Singapore**: 45

**China’s total trade**: USD 4,105bn
- **Total imports**: USD 1,841bn
- **Total exports**: USD 2,264bn

Source: UN Comtrade; China Customs; The Beijing Axis Analysis
While China has a large trade surplus with both Hong Kong and the US, its trade deficit is largely centered in the Asia Pacific economies of Taiwan, South Korea and Australia.

**China’s Trade Balance with its Five Largest Surplus and Deficit Regions (USD bn, 2017)**

- **Trade Surplus**
  - US: 276
  - Hong Kong: 272
  - Netherlands: 56
  - India: 52
  - UK: 34

- **Trade Deficit**
  - Japan: -28
  - Brazil: -30
  - Australia: -53
  - South Korea: -75
  - Taiwan: -111

China’s world trade surplus = USD 423bn

Source: China Customs; The Beijing Axis Analysis
China’s trade balance has been decreasing since a high in 2015, as its exports decrease and its import demand stagnates.

China’s Monthly Trade Balance (USD bn, 2007-2018)

Source: China Customs; The Beijing Axis Analysis
Contribution of net exports to GDP has been declining, while fixed asset investment and total consumption are becoming the primary drivers of GDP growth – in line with the government’s policy of boosting domestic consumption.

1. Net Exports here do not include service trade.

Source: National Bureau of Statistics of China; China Customs; The Beijing Axis Analysis
About 75% of China’s total international trade value is concentrated in 6 coastal provinces. This is chiefly due to their access to world-class port facilities, large manufacturing bases and large share of domestic consumption.

Trade by Province as a Percentage of China’s Total Trade Value (%, 2017)

Percentage of China’s total trade value:
- Top 60%
- Next 30%
- Next 10%

Total Trade: USD 4,105bn
Imports: USD 1,841bn
Exports: USD 2,264bn

Source: China Customs; The Beijing Axis Analysis
Greater demand and better access for foreign producers have underpinned further growth in China’s meat, fish, fruit, and vegetable imports in recent years.

China’s Annual Meat, Fish, Fruit, and Vegetable Imports (USD bn, 1997-2017)

Note: HS code 02 has been used for meat imports; HS code 03 (fish, crustaceans, mollusks, aquatic, invertebrates) has been used for fish imports; HS code 08 (edible fruit) has been used for fruit imports; HS code 07 (edible vegetables and certain roots and tubers) has been used for vegetable imports.

Source: UN Comtrade; The Beijing Axis Analysis
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Slower growth in FAI\(^1\), which has traditionally been one of China’s core economic drivers, is a key factor in China’s slowing GDP growth rate.

Total Fixed Asset Investment\(^2\) in Urban and Rural Areas in China (1997-2017)

1. FAI: Fixed Asset Investment
2. Fixed asset investment figures are often overstated by local governments, with figures even exceeding GDP in some provinces. In June 2013, NBS announced a pilot reform of data collection relating to fixed asset investment in order to make local economic statistics more reliable.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
The government is focusing on reasonable investment growth in urban infrastructure projects to keep local debt levels in check. Urban fixed asset investment reached an all-time high of USD 1,258bn in June 2018.


- Investments gaining strength from favourable policies
- The RMB’s depreciation against the USD distorts the RMB value of the urban fixed asset investment

---

Note: In 2011, the National Bureau of Statistics of China extended the statistical scale of monthly fixed assets investment to cover both urban areas and rural enterprises, and defined it as ‘Investment in Fixed Assets (Excluding Rural Households)’

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China’s fixed asset investment continues to be primarily concentrated in the more developed coastal provinces. The top five provinces account for over 35% of total FAI.

**Geographical Distribution of China’s Fixed Asset Investment (USD bn, 2017)**

- **Top 5 Provinces by FAI**
  - Shandong
  - Jiangsu
  - Henan
  - Guangdong
  - Hebei

- **Bottom 5 Provinces by FAI**
  - Qinghai
  - Ningxia
  - Hainan
  - Inner Mongolia
  - Jilin

Source: China Statistical Yearbook; The Beijing Axis Analysis
Manufacturing and real estate attracts the majority of fixed asset investment in China, accounting for almost 53% of China’s total FAI, reflective of ongoing industrialisation and urbanisation trends.


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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate and manufacturing</td>
<td>2,865</td>
<td>2,067</td>
<td>905</td>
<td>1,717</td>
<td>1,215</td>
<td>1,215</td>
<td>2,067</td>
<td>2,865</td>
<td>1,717</td>
<td>1,215</td>
<td>1,215</td>
<td>1,215</td>
<td>1,215</td>
<td>1,215</td>
</tr>
<tr>
<td>Total</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
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<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China's low-cost production base has been a key driver of past FDI\(^1\) growth. Going forward, the country's large domestic consumption potential and the liberalisation of various sectors will be key drivers.

China’s FDI Inflow (USD bn, 1997-2017)

FDI growth has been moderating over the last 5 years.
In 2017, 95% of China’s FDI came from just five regions, led by Hong Kong. Hong Kong remains a crucial gateway for FDI from other countries into China, as well as FDI from Chinese firms headquartered in the SAR.

China’s FDI Inflow by Source Region (% of Total FDI Inflow, 2017)

China’s total FDI inflow for 2017 amounted to USD 136bn

1. SAR: Special Administrative Region of Hong Kong
Source: MOFCOM; The Beijing Axis Analysis
China’s coastal regions still attract the majority of FDI inflows, but new FDI guidelines are utilising schemes to encourage and incentivise foreign investment in the less-developed central and western regions.

China’s FDI Inflow by Province (USD bn, 2017)

Top 5 provinces account for 70% of total FDI inflows

Source: China Statistical Yearbook; The Beijing Axis Analysis
China’s manufacturing sector receives the bulk of China’s FDI inflow. New FDI guidelines provide incentives for foreign companies to invest in China’s high-end manufacturing, technology and service sectors.

**China’s FDI Inflow by Sector (USD bn, 2004-2017E)**

<table>
<thead>
<tr>
<th>CAGR</th>
<th>Annual Growth Rate</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>29%</td>
<td>38%</td>
<td>Others</td>
</tr>
<tr>
<td>12%</td>
<td>10%</td>
<td>Transport, Storage and Post</td>
</tr>
<tr>
<td>5%</td>
<td>-27%</td>
<td>Wholesale and Retail Trades</td>
</tr>
<tr>
<td>15%</td>
<td>4%</td>
<td>Leasing and Business Services</td>
</tr>
<tr>
<td>8%</td>
<td>-14%</td>
<td>Real Estate</td>
</tr>
<tr>
<td>-2%</td>
<td>-6%</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>6%</td>
<td>4%</td>
<td>Total</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics; The Beijing Axis Analysis
China’s OFDI flow grew continuously until 2016, largely driven by Chinese companies’ growing need to access new markets, technology and resources. However, it dramatically decreased in 2017 due to stricter overseas investment regulations.

China’s OFDI Flow (2002-2017)

In 2005, SAFE\(^1\) eased restrictions on overseas investments made by Chinese companies.

Chinese companies increased acquisition of overseas depressed assets.

1. SAFE: State Administration of Foreign Exchange

Source: UNCTAD World Investment Report; The Beijing Axis Analysis
While China’s OFDI extends to all continents, international financial centres such as Hong Kong and British Virgin Islands receive the bulk of OFDI flow.

China’s OFDI Flow by Destination (%, 2017)

MOFCOM China’s total OFDI flow for 2017 amounted to USD 158.29bn; UNCTAD World Investment Report value is USD 124.6bn.

Source: MOFCOM; The Beijing Axis Analysis
In 2017, more than half of China’s non-financial OFDI came from just five provinces, all located along the east coast, except for Beijing.

China’s OFDI Flow by Province (USD bn, 2017)

- Shanghai
- Guangdong
- Zhejiang
- Shandong
- Beijing

China’s OFDI Flow by Province (% 2017)

- Top 5 Provinces: Beijing 8%, Shanghai 15%, Zhejiang 12%, Shandong 9%, Guangdong 14%
- Bottom 5 Provinces: Tibet 0.27%, Ningxia 0.12%, Jilin 0.27%, Ningxia 0.12%, Guizhou 0.05%

Shanghai, one of the major drivers of China’s ‘going out’ policy, registered the highest OFDI.

Note: OFDI figures include non-financial OFDI and exclude investments made by central enterprises.
Source: MOFCOM; The Beijing Axis Analysis.
Outward investments in manufacturing, as well as finance, grew substantially in 2016 - reflective of China’s new OFDI profile but in 2017 dropped for the first time on record following increased scrutiny on cross-border deals, notably by the US.

### China’s OFDI Flow by Sector (USD bn, 2007-2017)

<table>
<thead>
<tr>
<th>CAGR</th>
<th>Annual Growth Rate</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>28%</td>
<td>-55%</td>
<td>Others</td>
</tr>
<tr>
<td>30%</td>
<td>2%</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>3%</td>
<td>226%</td>
<td>Transport, Storage and Post</td>
</tr>
<tr>
<td>-8%</td>
<td>-83%</td>
<td>Mining</td>
</tr>
<tr>
<td>15%</td>
<td>26%</td>
<td>Wholesale and Retail Trades</td>
</tr>
<tr>
<td>27%</td>
<td>26%</td>
<td>Finance</td>
</tr>
<tr>
<td>25%</td>
<td>-17%</td>
<td>Leasing and Business Services</td>
</tr>
<tr>
<td>20%</td>
<td>-19%</td>
<td>Total</td>
</tr>
</tbody>
</table>

Note: 1. In 2017 the outward investment flow in mining decreased to -3.7bn, and is thus not expressed in the CAGR calculation.
2. Business services includes investment in holding companies, regional headquarters and SPVs often established in offshore financial centers from where investments are made in other countries and sectors; Finance includes investments in the banking industry such as bank branch offices, bank affiliated institutions, bank rep. offices, and insurance institutions; Wholesale and retailing, as well as transportation, warehousing, and postal services are closely linked with China’s export and import activities.

Source: MOFCOM; The Beijing Axis Analysis.
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China resumed the semi-floating (controlled) exchange rate mechanism in 2010. The doubling of the USD/RMB trading bandwidth in 2014 has been seen as an important step towards establishing a market-based exchange rate system.

**RMB to USD Nominal Exchange Rate (1 USD, 1990-1H2018)**

- In July 2005, the PBoC announced that it would lift the dollar peg and phase in a flexible exchange rate mechanism. Following the announcement, the RMB to dollar rate was revaluated to 8.1.
- In March 2014, China announced that it will widen RMB's daily trade limit band against the USD from 1% to 2%.
- In April 2012, China announced that it would widen the RMB's daily trade limit band against the USD from 0.5% to 1%.
- On 11 Aug 2015, China devalued the RMB by 1.9%, triggering the RMB's biggest one-day drop since 1994.
- From 1997 to 2005, China pegged the RMB to the USD at a rate of 8.3 to 1, despite significant criticism.

Source: The People's Bank of China; Federal Reserve Bank of St. Louis; The Beijing Axis Analysis
Deregulation of the LDR through a revision of the calculation methodology boosts banks’ ability to lend, further supporting China’s transitioning economy.

Recent Removal of the LDR Limit

- The LDR limit was used as a risk management tool.
- A slowdown in China’s current account surplus and capital inflows has slowed the growth of deposits.
- Consequently, the LDR for many banks was near the 75% limit in 2014.
- This constrained banks’ ability to lend, despite a push to boost credit supply to support growth.
- As a result, the LDR limit was removed. This is aimed at stimulating the economy in general, with particular emphasis on rural economies and micro-sized businesses, whilst traditional state-owned powerhouses will lose ground.
- The risk is that a freer banking system would lead to an unbridled flow of funds to high-risk marketplaces and investment vehicles.

Source: Bank Websites; BBVA; Bloomberg; The Beijing Axis Analysis
The RMB appreciated against the USD over the last year due to a weaker US dollar, but the trade war has triggered its depreciation against the USD in 2018.

Nominal Exchange Rates Comparison (Nov 2015-Dec 2018)

Note: The nominal exchange rate is defined as the actual quote for a currency in relation to another currency.
Source: OANDA; The Beijing Axis Analysis
From November 2014 to the end of October 2015, the PBoC cut interest rates six times to spur economic growth. On 24 October 2015, the benchmark interest rate was cut to a record low of 4.35% and it has remained there since then.

China’s Benchmark Lending Rates (%, 1998-2018)

- 6 months to 1 year (including 1 year)
- 1 year to 3 years (including 3 years)
- 3 years to 5 years (including 5 years)
- Longer than 5 years

First loan interest rate decrease since the global financial crisis
First loan interest rate decrease in six years
Four adjustments in the loan interest rate since Nov. 2014
In Oct 2008, the lending rate was adjusted 3 times in a month

Source: Hexun; The Beijing Axis Analysis
After decreasing the benchmark lending rate to its all-time lowest level, it has been kept at 4.35% for over three years.

**China’s Benchmark 1-Year Lending Rate (% 2011-2018)**

- **Key Business Implications of China’s Interest Rate Liberalization**
  - Market-oriented interest rate reforms are also part of a push towards economic reforms.
  - Banks can now set rates for loans and deposits more autonomously.
  - After becoming more stable in 2016, capital outflows fell by two thirds in 2017.
  - China has continued to raise open market rates in recent months in efforts to gradually deleverage.

Source: Bloomberg; Pictet; The Beijing Axis Analysis
China’s stock markets have become cautiously optimistic in the past year, but have cooled recently over concerns of souring trade relations with the United States.

**China Stock Market Indices (Index Value, 2016-18)**

- **Sudden market fears about growth slowdown, debt and capital flight triggered a massive drop in the beginning of 2016.**
- **SSE falls to its lowest level since November 2014.**
- **SSE reaches two year high due to bond market crackdowns, jump in 2017 corporate profits, and the CNY’s 2 year-high against the USD.**
- **SSE plunges 4% following similar selloff in the prior US market day.**
- **Concerns over US-China trade war sends stock market downward.**

Source: Yahoo Finance; Bloomberg; The Beijing Axis Analysis
QFII and RQFII are two major quotas for foreign institutional investors looking to access China’s stock market. Beijing has used these quotas to allow increased access to local markets.

Comparison of QFII and RQFII Investors

<table>
<thead>
<tr>
<th></th>
<th>QFII</th>
<th>RQFII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Qualified Foreign Institution Investor</td>
<td>RMB Qualified Foreign Institution Investor</td>
</tr>
<tr>
<td>Date Created</td>
<td>2002</td>
<td>2011</td>
</tr>
<tr>
<td>Regulator</td>
<td>CSRC, SAFE</td>
<td>CSRC, SAFE, PBoC</td>
</tr>
<tr>
<td>Eligible Applicants</td>
<td>Commercial banks, securities companies, asset mgmt. companies, insurance companies, etc.</td>
<td>Financial institutions registered and mainly operated in Hong Kong</td>
</tr>
<tr>
<td>Currency</td>
<td>USD</td>
<td>RMB</td>
</tr>
<tr>
<td>Investment Scope</td>
<td>Stocks, bonds, funds, warrants, Initial Public Offerings (IPOs), bond issuance, and other products approved by CSRC</td>
<td></td>
</tr>
<tr>
<td>Investment Limitations</td>
<td>&lt;30% for QFII shareholding in total, &lt;10% for single QFII shareholding</td>
<td></td>
</tr>
</tbody>
</table>

Approved Quotas and Number of Licensed Institutions (USD bn, 2014-2018)

In June 2018, a 20% ceiling on profit repatriation was removed for both QFIIs and RQFIIs. Other restrictions were also removed, such as lockup periods for principal and access to domestic currency hedging schemes. SAFE and PBoC continue to increase quotas for foreign financial firms.

Source: Shenzhen Stock Exchange; SAFE; CSRC; The Beijing Axis Analysis
The PBoC’s M2 growth for 2017 fell far below its 12% target. The PBoC tends not to set fixed targets, instead implementing regular revisions of the target based on the needs of the economy.

China’s Money Supply (USD tn, 2012-2018)

Source: The People’s Bank of China; The Beijing Axis Analysis
The PBoC has continued to maintain a prudent monetary policy in 2016, as it looks to keep credit growth stable and quicken the pace of market-oriented interest rate reform.

China’s Benchmark Deposit Interest Rates (% p.a., Mar 1998-Dec 2018)

The interest rates have remained unchanged since October 2015.

First cut since global financial crisis.

Adjustments in 2012 to widen the range within which banks can set deposit rates mark an important step towards interest rate liberalisation.

Source: The People’s Bank of China; The Beijing Axis Analysis
Chinese banks have funded themselves mainly from deposits at a loan-to-deposit ratio (LDR) of about 75%. Total deposits reached USD 31tn by the end of 2018, while loans amounted to USD 23tn.

China’s Total Loans and Deposits¹ (USD bn, 2000-2018)

In 2007, the CBRC² implemented a 75% LDR ratio limit for all banks in China. In June 2015, the China’s State Council issued a draft proposal to relax the ratio limit.

Source: The People’s Bank of China; The Beijing Axis Analysis

1. Total Loans and Deposits in RMB and Foreign Currency
2. CBRC: China Banking Regulatory Commission
China’s high savings rate remained as the main source of funds for Chinese banks. In 2017, household banking deposits accounted for 38% of total deposits, while non-financial companies deposits accounted for 33%. 

### China’s Sources of Deposits (USD bn, 2007-2017)

<table>
<thead>
<tr>
<th>Year</th>
<th>Household Savings Deposits</th>
<th>Corporate Deposits</th>
<th>Other Deposits</th>
<th>Designated Deposits</th>
<th>Agricultural Deposits</th>
<th>Trust Deposits</th>
<th>Fiscal Deposits</th>
<th>Deposits of Gov. Dept. &amp; Org.</th>
<th>Company Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>07</td>
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</tbody>
</table>

Note: Classification in Sources & Uses of Financial Institution Credit Funds was changed in 2011 and 2015.

Source: The People’s Bank of China; The Beijing Axis Analysis
Since bottoming out in July 2014, China’s monthly new loans have been steeply increased and decreased in the diverse phases, as a result of several reductions in interest rates and bank deposit-reserve ratios.

**China’s Monthly New Loans (USD bn, 2011-Nov 2018)**

- **Monthly Loan Size**
- **Y-o-Y Growth Rate (rhs)**
- **Yearly Cumulative % Change**

Chinese banks front-load their balance sheets in anticipation of support from the Chinese government due to economic slowdown.

Source: The People’s Bank of China; The Beijing Axis Analysis
In 2017, new RMB loans reached USD 18,485bn, with ‘non-financial enterprises and government department and organisations’ accounting for 63% of total loans.


Composition of China’s New Loans (USD bn, 2017)
By the end of 2017, the Shanghai and Shenzhen Stock Exchanges were the world’s 5th and 7th largest stock markets respectively, by market capitalisation.
From 2014, the market value of tradable shares increased significantly, until the drop in mid-2015. Market value then slowly regained value before hitting more significant losses in the first half of 2018.

Shanghai Stock Exchange Composite Index (2011-2018)

Shenzhen Stock Exchange Component Index (2011-2018)

Source: Shanghai Stock Exchange; Shenzhen Stock Exchange; The Beijing Axis Analysis
After recovering from the global financial crisis in 2009, China’s stock markets have since declined as both domestic and overseas investors have become weary of lax corporate governance and dampened profit outlook.

Shanghai Stock Exchange Trading Volume and Composite Index (2005-2018)

<table>
<thead>
<tr>
<th>Year</th>
<th>Trading Volume (LHS)</th>
<th>SH Composite Index (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>05</td>
<td>235</td>
<td>725</td>
</tr>
<tr>
<td>06</td>
<td>4,017</td>
<td>6,689</td>
</tr>
<tr>
<td>07</td>
<td>2,597</td>
<td>5,893</td>
</tr>
<tr>
<td>08</td>
<td>2,997</td>
<td>3,883</td>
</tr>
<tr>
<td>09</td>
<td>8,423</td>
<td>8,075</td>
</tr>
<tr>
<td>10</td>
<td>13,309</td>
<td>19,715</td>
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<tr>
<td>11</td>
<td>40,979</td>
<td>7,375</td>
</tr>
<tr>
<td>12</td>
<td>7,912</td>
<td>7,785</td>
</tr>
</tbody>
</table>

Average P/E Ratio

- 2005: 16.3
- 2006: 33.3
- 2007: 39.2
- 2008: 14.9
- 2009: 28.7
- 2010: 12.6
- 2011: 16.3
- 2012: 16.7
- 2013: 16.7
- 2014: 46.0
- 2015: 44.6
- 2016: 23.1
- 2017: 22.0
- 2018: 27.7

Total Turnover USD bn

- 2005: 16.4
- 2006: 32.7
- 2007: 69.7
- 2008: 16.7
- 2009: 46.0
- 2010: 44.6
- 2011: 23.1
- 2012: 22.0
- 2013: 34.0
- 2014: 52.7
- 2015: 36.2
- 2016: 33.1
- 2017: 18.8
- 2018: 11.4


<table>
<thead>
<tr>
<th>Year</th>
<th>Trading Volume (LHS)</th>
<th>SZSE Composite Index (RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>05</td>
<td>152</td>
<td>410</td>
</tr>
<tr>
<td>06</td>
<td>2,040</td>
<td>1,248</td>
</tr>
<tr>
<td>07</td>
<td>2,909</td>
<td>3,360</td>
</tr>
<tr>
<td>08</td>
<td>3,095</td>
<td>2,095</td>
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<td>3,369</td>
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<td>10</td>
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<td>18,845</td>
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<tr>
<td>12</td>
<td>11,494</td>
<td>10,593</td>
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<tr>
<td>13</td>
<td>10,593</td>
<td>n.a.</td>
</tr>
<tr>
<td>14</td>
<td>36,21</td>
<td>10,593</td>
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<td>15</td>
<td>3,762</td>
<td>7,375</td>
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<tr>
<td>16</td>
<td>15,91</td>
<td>7,785</td>
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Total Turnover USD bn

- 2005: 152
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- 2011: 2,095
- 2012: 2,309
- 2013: 3,866
- 2014: 5,642
- 2015: 18,845
- 2016: 11,494
- 2017: 10,593

Source: EastMoney; Shanghai Stock Exchange; Shenzhen Stock Exchange; The Beijing Axis Analysis
China holds the world’s largest FX\(^1\) reserves. The foreign reserve growth rate had been negative since 2014, but rebounded in 2017

China’s Foreign Exchange Reserves (USD bn, 1997-2018)

- China holds the world’s largest FX\(^1\) reserves.
- The foreign reserve growth rate had been negative since 2014, but rebounded in 2017.

Note: 1. FX – Foreign Exchange
Source: Bloomberg; The People’s Bank of China; The Beijing Axis Analysis
China’s FX reserves fell below USD 3tn in January 2017, and slowly increased during the year. As the floating band of Chinese Yuan widens and cross-border capital flow stabilises, the FX reserves in China remains steady.

China’s foreign exchange reserves experienced its first quarterly drop in more than a decade in Q4-2011.

January 2017 China’s FX reserves fell just under the USD 3tn mark for the first time in almost 6 years.

Source: The People’s Bank of China; Various; The Beijing Axis Analysis
Many economists have long considered China’s currency to be undervalued. The IMF officially declared the Renminbi (RMB) to no longer be undervalued in May 2015, with the RMB officially being included in the SDR¹ from October 2016.

**Annual RMB to Certain Currency Exchange Rate (2001-2018)**

The higher the rates are, the more the RMB has depreciated in relation to these currencies. Conversely, RMB gains weaken Chinese exports to these countries. The USD is the only currency that appreciated against the RMB between 2014 and 2015.

---

Note: 1. SDR = Special Drawing Rights; Artificial currency unit based upon several national currencies. The SDR serves as the official monetary unit of several international organizations and acts as a supplementary reserve for national banking system.
2. Index 2001 = 100

Source: OANDA; fxtop.com; The Beijing Axis Analysis
The RMB has gradually strengthened in comparison to other emerging market currencies over the last 6 years, which has detracted from China’s relative manufacturing competitiveness over this long-term period…

### Real Effective Exchange Rate (2011-2018)

<table>
<thead>
<tr>
<th>Currency Pair</th>
<th>2011</th>
<th>2016</th>
<th>2018</th>
<th>Competitive Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD-RMB</td>
<td>6.46</td>
<td>6.64</td>
<td>6.87</td>
<td></td>
</tr>
<tr>
<td>AUD-RMB</td>
<td>6.67</td>
<td>4.95</td>
<td>4.85</td>
<td></td>
</tr>
<tr>
<td>EUR-RMB</td>
<td>8.99</td>
<td>7.35</td>
<td>7.87</td>
<td></td>
</tr>
</tbody>
</table>

Note: Real effective exchange rates are the geometric weighted averages of bilateral exchange rates, adjusted by relative consumer prices. The assigned weights represent the partner country's trade share within the total trade. The real effective exchange rate on Jan 2011 is assigned a value of 100 to compute the index.

Source: BIS; The Beijing Axis Analysis
…however, the recent relative stabilisation and decline in the RMB’s real effective exchange rate implies that the impact of currency on China’s export competitiveness has become less significant.

The RMB stabilised after a long period of appreciation, and even weakened, which implies that the RMB’s negative impact on export competitiveness is declining.

Note: The real effective exchange rate on Jan 2015 is assigned a value of 100 to compute the index.
Source: BIS; The Beijing Axis Analysis
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In 2017, China had the world’s largest population with 1.39bn people. However, its population growth has consistently decreased over the past few decades, with current growth stabilising at less than 0.6% per year.

China’s Population (mn, 1978-2018E)

Population increase in 2016 attributed to the relaxation of the one-child policy at the end of 2015.

Source: IMF; National Bureau of Statistics of China; The Beijing Axis Analysis
Since 1987, China’s birth rate has been declining significantly – as of November 2015, the amended One Child Policy now allows all families to have a second child.

In 2016, among all newly born children, 45% of them are the second or more child in the family.

Rising costs of living are discouraging young urban families from having more than one child.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China’s population is ageing rapidly – unlike other developing economies, it will not be able to leverage a young population base to drive growth.

China Population Maturity Forecast (mn, 1980-2060F)

Fertility Rates¹ by Country (1971-2017E)

Note: According to OECD, the fertility rate is defined as the total number of children that would be born to each woman if she were to live to the end of her child-bearing years and give birth to children in alignment with the prevailing age-specific fertility rates.

Source: United Nations; World Bank; CIA Factbook; The Beijing Axis Analysis.
China’s ageing population is driving the growth of the healthcare and pharma industries, which are also starting to play a key role in exports.

The major drivers of increased healthcare spending in China are the ageing population, increased govt. focus on healthcare, and increased spending power in rural and less accessible areas.

China’s Healthcare Spending (USD bn, 2012-2020F)

- Represents healthcare expenditure as a % of GDP
- 5.3% in 2012
- 6.2% in 2016
- 6.2% in 2020F

China Pharmaceutical Sales (USD bn, 2010–2020F)

- Growth rate is expected to be lower in the next few years, in line with China’s general economic development and the gradual maturing of the market.
- Became the 2nd largest pharma market globally in 2016.
- 8.4% CAGR


- 2012: Govt. Health Exp. = 149, Social Health Exp. = 154, Out of Pocket Health Exp. = 130
- 2016: Govt. Health Exp. = 201, Social Health Exp. = 288, Out of Pocket Health Exp. = 209
- 2020F: Govt. Health Exp. = 325, Social Health Exp. = 330, Out of Pocket Health Exp. = 314

Western Medicine
- 2010: 4.9% Others, 19.5% Chinese Patent Drugs, 50.7% Generic Prescription Drugs, 13.8% Patented Prescription Drugs
- 2013: 3.3% Others, 15.2% Chinese Patent Drugs, 9.5% Generic Prescription Drugs, 7.4% Patented Prescription Drugs
- 2020F: 14.3% Chinese Herb Medicines, 50% OTC Drugs, 9.5% Chinese Patent Drugs, 7.4% Patented Prescription Drugs

Note: Others include disposals (e.g., needles and syringes), chemical agents, glassware, etc.
Source: MOFCOM; NBS; The Beijing Axis Analysis
As more migrants move to coastal areas in search of better economic opportunities, the already populous regions are facing new socioeconomic challenges in accommodating the incoming population.

### China Provincial Population Breakdown by Urban and Rural Residences (mn, 2017)

- **Top 5 Provinces by Urban Population**
  1. Guangdong
  2. Shandong
  3. Henan
  4. Sichuan
  5. Jiangsu

- **Bottom 5 Provinces by Urban Population**
  26. Inner Mongolia
  27. Tianjin
  28. Hainan
  29. Ningxia
  30. Qinghai

### Geographical Distribution of China’s Population (mn, 2017)

Higher wages in more developed areas attract migrant workers from surrounding provinces.

Source: China Statistical Yearbook; The Beijing Axis Analysis
In 2011, employment in China’s services sector overtook the agricultural sector for the first time. As China’s economy continues to develop, the services sector will play an increasingly important role.

Total Employed Persons by Sector (% of Total, 2005-2017)

- **Agricultural Sector**: 9%
- **Industry Sector**: 40%
- **Services Sector**: 52%

Contribution of Each Sector to GDP (%, 2017)

- **Agricultural Sector**: 9%
- **Services Sector**: 52%
- **Industry Sector**: 40%

Source: STATISTA; The Beijing Axis Analysis
Despite a gradual narrowing of the urban-rural income disparity, income levels in urban households are still almost three times more than those of rural households.

Annual Income of Urban and Rural Households in China (1997-2018)

Note: 1. Annual disposable income of urban households and net income of rural households per capita
2. Growth rates are calculated at current prices
Source: National Bureau of Statistics of China; The Beijing Axis Analysis
Beijing and Shanghai, China’s political and financial capitals, continue to lead the country in terms of wealth accumulation. Overall, income levels are substantially skewed towards the more developed, eastern coastal provinces.

<table>
<thead>
<tr>
<th>Province</th>
<th>Urban Household Income</th>
<th>Rural Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>62,406</td>
<td>13,000</td>
</tr>
<tr>
<td>Beijing</td>
<td>62,406</td>
<td>13,000</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>43,622</td>
<td>9,800</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>40,975</td>
<td>10,000</td>
</tr>
<tr>
<td>Guangdong</td>
<td>31,264</td>
<td>7,000</td>
</tr>
</tbody>
</table>

Top 5 Provinces by Urban Household Income:
- Shanghai
- Beijing
- Zhejiang
- Jiangsu
- Guangdong

Bottom 5 Provinces by Urban Household Income:
- Guizhou
- Guizhou
- Guizhou
- Guizhou
- Guizhou

Geographical Distribution of China’s Household Income (USD, 2017)

Note: Represents disposable income of urban households and net income of rural households
Source: China Statistical Yearbook; The Beijing Axis Analysis
While the downward trend of the Engel Coefficient reflects a progressively higher standard of living, temporary increases in 2004, 2008 and 2011 underscore concerns over food price spikes.

**China’s Urban and Rural Engel Coefficients (%, 1978-2017)**

- **Urban Areas**
- **Rural Areas**

Note: Engel's Law states that household expenditure on food, on aggregate, declines as income rises; in other words, the income elasticity of demand for food on aggregate is less than one and declines towards zero with income growth. A common application of this statistic is to regard it as a reflection of the living standards of a country. Engel Coefficient has an inverse correlation with the standard of living of a country.

Source: National Bureau of Statistics of China; Hexun; The Beijing Axis Analysis
Income inequality in China is growing, as measured by the Gini Coefficient. There are concerns in China that growing income inequality, if left unchecked, could undermine social stability and future economic growth.

**China’s Gini Coefficient (1978-2018)**

- Official data shows China’s Gini Coefficient peaked in 2008 at 0.491, while non-official data shows it has already been greater than 0.5 for some time, signaling severe inequality.
- China exceeded 0.4 – the recognised warning level for dangerous levels of inequality – in 2000.

Note: The Gini Coefficient is a measure of statistical dispersion. It is most prominently used as a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1. A low Gini Coefficient indicates more equal income or wealth distribution, while a high Gini Coefficient indicates more unequal distribution.

Source: National Bureau of Statistics of China; The Beijing Axis Analysis
China’s urban population outnumbered its rural population for the first time in 2011, marking an important milestone in China’s ongoing socio-economic transformation.

China’s Urbanisation Rate (%, 1978-2018)

Source: National Bureau of Statistics of China; Annual Report on Urban Development of China; The Beijing Axis Analysis
Agenda

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   - Domestic and Foreign Investment
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5. Conclusions, Implications and Recommendations

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China’s rapid economic growth has positioned itself as the world’s 2nd largest economy. Furthermore, it is projected to overtake the US in 2026 and become the world’s largest economy.

GDP of Top Economies, excl. US (USD bn, 1995-2018F)

At current growth rates, China is projected to overtake the US in around 2026.

Between 2013 and 2014, China’s GDP growth was more than Indonesia’s total nominal GDP.

Note: Forecast GDP growth based on IMF Economic Outlook as of April 2018. 2026 forecast based on Bloomberg data.
Source: IMF; Bloomberg; The Beijing Axis Analysis.
The sheer size of China’s economy can be highlighted by the fact that its provinces have GDP figures comparable to those of major global economies.
China’s individual provinces are gaining economic prominence in the global context, with GDP per capita figures comparable to those of developing economies.

China’s GDP Per Capita by Province Compared with Selected Developing Economies (USD, 2017)

Source: National Bureau of Statistics of China; IMF; The Beijing Axis Analysis
China’s economy has shown greater resilience than most other major economies, even during the global financial crisis.

GDP Growth Comparison (%, 2000-2019F)

Note: Annual GDP growth based on YoY percent change in national GDP measured in local currency units using constant prices
Source: IMF; The Beijing Axis Analysis
Since 1980, China’s annual GDP growth rate has consistently exceeded the global average. China is set to remain a global economic engine, even at a lower growth rate of under 7%.
Although China's economic growth slowed to 6.6% in 2018, it still outpaced average global growth by a significant margin.

Annual GDP Growth for Asia and Major Economies (% Y-o-Y, 2018)

Note: Annual GDP growth based on Y-o-Y percent change in national GDP measured in local currency units using constant prices.
Source: IMF; The Beijing Axis Analysis
Despite the size of its economy, China’s GDP per capita remains low compared to other developed and developing countries. In 2017, China’s GDP per capita was USD 8,643.

Nominal GDP Per Capita (USD, 2017)

Note: Most of the nominal GDP per capita figures from the latest IMF database are from 2014.
Source: IMF; The Beijing Axis Analysis.
Within the BRICS economies, China’s GDP per capita has yet to overtake Russia and Brazil, although it is higher than both India and South Africa.

GDP Per Capita Comparison of Selected Economies (USD, 2001-2018E)

Note: 2018 estimate is from the IMF World Economic Outlook October 2018 Report
Source: World Bank; IMF; The Beijing Axis Analysis

In 2015, China’s GDP per capita surpassed USD 8,000.
Relative to other large economies, China’s economy still has a large industrial sector, highlighting the potential opportunity for the services sector to expand as the economy transitions.

Share of GDP by Industry of Top 30 Global Economies (%, 2017)

Source: CIA World Factbook; The Beijing Axis Analysis

Industrial sector contributed 72.8% in 2005; in 2017, the contribution reduced to 39.50%, showing increasing focus on value added industries.
The contribution of consumption to China’s GDP is much lower than that of other major economies, highlighting the potential of consumption as an additional lever of future economic growth.

**Composition of GDP of Top 30 Global Economies – Expenditure Approach (%, 2017)**

China’s GCF and exports made up 75.7% of GDP in 2005, reducing to 64.1% in 2017.

Source: CIA World Factbook; IMF World Economic Outlook; The Beijing Axis Analysis
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Other Recent Research & Publications by Axis Group International / The Beijing Axis
Please contact us for access to i.e.:
1. Asian Export Guide – What to export to Asian economies and how to succeed?
2. China Export Guide – What to export to China and how to succeed?
3. 20 Years of SA-China Diplomatic ties – Looking ahead at the next phase of economic and business relations
In 2018, China was estimated to have been the largest exporter in the region, with total exports of USD 2.39tn, making up 18% of its GDP.

Asia Pacific’s Major Exporters (2018E)

Exports (USD bn)

China’s Exports (USD bn)

- 2003: 438
- 2008: 1,430
- 2018: 2,399
- CAGR (2003-2018): 12%

Source: IMF; UN Comtrade; China Customs; The Beijing Axis Analysis

Note: 1. 2016 data was used for countries marked with an asterisk and 2017 data was used for countries marked in double asterisks.
2. For Bangladesh, Papua New Guinea and Bhutan trade data is not available.
China is the world’s largest exporter of electrical machinery. In 2017, China exported nearly USD 600bn of electrical machinery, accounting for 25% of the world’s total.

**China’s Top 10 Export Commodities 2017 (HS Code)**

Total: USD 2,263bn

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Percent</th>
<th>USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical machinery and equipment</td>
<td>26%</td>
<td>598.3</td>
</tr>
<tr>
<td>Nuclear reactors, machinery and mechanical appliances</td>
<td>17%</td>
<td>84.3</td>
</tr>
<tr>
<td>Furniture, lighting, signs, prefabricated buildings</td>
<td>4%</td>
<td>38.8</td>
</tr>
<tr>
<td>Articles of apparel and clothing accessories (not knitted)</td>
<td>3%</td>
<td>6.1</td>
</tr>
<tr>
<td>Articles of apparel and clothing accessories (knitted)</td>
<td>3%</td>
<td>6.1</td>
</tr>
<tr>
<td>Optical, photographic, technical, medical, etc. apparatus</td>
<td>3%</td>
<td>6.1</td>
</tr>
<tr>
<td>Plastics and articles</td>
<td>3%</td>
<td>6.1</td>
</tr>
<tr>
<td>Vehicles other than railway, tramway</td>
<td>3%</td>
<td>6.1</td>
</tr>
<tr>
<td>Iron and steel</td>
<td>2%</td>
<td>4.2</td>
</tr>
<tr>
<td>Toys, games and sports requisites</td>
<td>32%</td>
<td>717.0</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
<td>57.3</td>
</tr>
</tbody>
</table>

**Top 20 Exporters of Electrical Machinery (USD bn, 2017)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Export of Electrical Machinery (USD bn)</th>
<th>% of World Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>598.3</td>
<td>25.1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>327.5</td>
<td>14.4</td>
</tr>
<tr>
<td>US</td>
<td>260.2</td>
<td>11.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>176.4</td>
<td>7.8</td>
</tr>
<tr>
<td>Germany</td>
<td>117.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Other Asia, nes</td>
<td>102.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>100.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Japan</td>
<td>85.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Mexico</td>
<td>84.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>73.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>53.8</td>
<td>2.4</td>
</tr>
<tr>
<td>France</td>
<td>48.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Philippines</td>
<td>45.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>44.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Italy</td>
<td>42.1</td>
<td>1.9</td>
</tr>
<tr>
<td>UK</td>
<td>33.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Poland</td>
<td>29.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>23.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Slovakia</td>
<td>22.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Spain</td>
<td>21.9</td>
<td>1.0</td>
</tr>
</tbody>
</table>

China’s share has risen from only 8% to 25%.

Source: UN Comtrade; China Customs; The Beijing Axis Analysis
China is the world’s largest exporter of power generating equipment. In 2017, China exported approx. USD 380bn, or 19% of the world’s power generating equipment exports.

China’s Top 10 Export Commodities 2017 (HS Code)

- **Total: USD 2,263bn**

- **85 Electrical machinery and equipment**
- **84 Nuclear reactors, machinery and mechanical appliances**
- **94 Furniture, lighting, signs, prefabricated buildings**
- **62 Articles of apparel and clothing accessories (not knitted)**
- **61 Articles of apparel and clothing accessories (knitted)**
- **90 Optical, photographic, technical, medical, etc. apparatus**
- **39 Plastics and articles**
- **87 Vehicles other than railway, tramway**
- **73 Iron and steel**
- **95 Toys, games and sports requisites**
- **Other**

Top 20 Exporters of Power Generation Equipment (USD bn, 2017)

- China: 383.2
- Germany: 207.0
- US: 152.0
- Japan: 158.0
- Italy: 67.0
- Netherlands: 46.0
- South Korea: 48.0
- Hong Kong: 44.0
- Mexico: 32.0
- UK: 31.0
- France: 29.0
- Singapore: 20.0
- Czech Rep.: 23.0
- Canada: 17.0
- Belgium: 17.0
- Poland: 13.0
- Austria: 11.0
- Spain: 9.0
- Malaysia: 9.0
- Switzerland: 7.0

China has surpassed major manufacturing powerhouses to account for approx. 20% of global exports.

Source: UN Comtrade; China Customs; The Beijing Axis Analysis
China is the world’s largest exporter of furniture and lighting, exceeding the combined share of the next 10 largest exporting countries. In 2017, China exported a total of USD 89bn, or 39% of the world’s furniture and lighting goods.

China’s Top 10 Export Commodities 2017 (HS Code)

Total: USD 2,263bn

- 85 Electrical machinery and equipment: 26%
- 84 Nuclear reactors, machinery and mechanical appliances: 17%
- 94 Furniture, lighting, signs, prefabricated buildings: 7%
- 62 Articles of apparel and clothing accessories (not knitted): 4%
- 61 Articles of apparel and clothing accessories (knitted): 3%
- 90 Optical, photographic, technical, medical, etc. apparatus: 3%
- 39 Plastics and articles: 3%
- 87 Vehicles other than railway, tramway: 3%
- 73 Iron and steel: 3%
- 95 Toys, games and sports requisites: 2%
- Other: 32%

Top 20 Exporters of Furniture and Lightings (USD bn, 2017)

- China: 88.9
- Germany
- Italy
- Poland
- US
- Mexico
- Canada
- Czech Rep.
- Netherlands
- UK
- France
- Spain
- Denmark
- Turkey
- Romania
- Sweden
- Malaysia
- Belgium
- Austria
- Portugal

China accounts for 39% of global exports.

Note: There’s no data for Vietnam in 2017.
Source: UN Comtrade; China Customs; The Beijing Axis Analysis.
China is the largest exporter of non-knitted articles of apparel. In 2017, China exported over USD 73 bn, or 39.1% of the world’s products in this category.

**China’s Top 10 Export Commodities 2017 (HS Code)**

Total: USD 2,263bn

- 85 Electrical machinery and equipment (26%)
- 84 Nuclear reactors, machinery and mechanical appliances (17%)
- 94 Furniture, lighting, signs, prefabricated buildings (4%)
- 62 Articles of apparel and clothing accessories (not knitted) (3%)
- 61 Articles of apparel and clothing accessories (knitted) (3%)
- 90 Optical, photographic, technical, medical, etc. apparatus (3%)
- 39 Plastics and articles (3%)
- 87 Vehicles other than railway, tramway (2%)
- 73 Iron and steel (32%)
- 95 Toys, games and sports requisites
- Other

**Top 20 Exporters of Non-Knitted Articles of Apparel (USD bn, 2017)**

- China: 73.4
- Italy
- Germany
- India
- Spain
- Hong Kong
- France
- Turkey
- UK
- Indonesia
- Netherlands
- Belgium
- Poland
- Denmark
- US
- Mexico
- Romania
- Sri Lanka
- Myanmar
- Tunisia
- Other

Source: UN Comtrade; China Customs; The Beijing Axis Analysis
China is by far the world’s largest exporter of knitted articles of apparel and clothing accessories. In 2017, China exported a total of USD 71.8 bn, or around 40% of the world’s knitted apparel and clothing accessories.

China’s Top 10 Export Commodities 2017 (HS Code)

Total: USD 2,263bn

- 85 Electrical machinery and equipment (32%)
- 84 Nuclear reactors, machinery and mechanical appliances (17%)
- 94 Furniture, lighting, signs, prefabricated buildings (6%)
- 62 Articles of apparel and clothing accessories (not knitted) (3%)
- 61 Articles of apparel and clothing accessories (knitted) (3%)
- 90 Optical, photographic, technical, medical, etc. apparatus (2%)
- 39 Plastics and articles (4%)
- 87 Vehicles other than railway, tramway (3%)
- 73 Iron and steel (3%)
- 95 Toys, games and sports requisites (2%)
- Other (3%)

Top 20 Exporters of Knitted Articles of Apparel (USD bn, 2017)

- China
- Germany
- Turkey
- Italy
- India
- Hong Kong
- Spain
- Belgium
- France
- Netherlands
- Indonesia
- UK
- Sri Lanka
- US
- Portugal
- Poland
- El Salvador
- Denmark
- Mexico
- Jordan

China accounts for over a third of global exports.

Source: UN Comtrade; China Customs; The Beijing Axis Analysis
Over the last decade, China’s exports of major mining products have grown rapidly, as the country transitions towards manufacturing high-value goods.

### Analysis of China’s Exports of Selected Mining Products (2016)

<table>
<thead>
<tr>
<th>Export CAGR for 2012-2016 (%)</th>
<th>Global Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>10%</td>
</tr>
<tr>
<td>7</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>30%</td>
</tr>
<tr>
<td>-3</td>
<td>40%</td>
</tr>
<tr>
<td>-8</td>
<td>50%</td>
</tr>
<tr>
<td>-13</td>
<td>60%</td>
</tr>
<tr>
<td>-18</td>
<td>70%</td>
</tr>
<tr>
<td>-23</td>
<td>80%</td>
</tr>
</tbody>
</table>

- **Fixed Plant & Equipment**: Graphite electrode
- **Material Handling**: Grinding Media
- **Mining Operations**: Electrical equipment
- **MRO Consumables**: Steel and structural products
- **Processing**: Electrical equipment

**Note:**
1. Chemicals are not included since there are too many types of chemicals.
2. Bubble is too small to be shown.

Source: UN Comtrade; International Trade Center; The Beijing Axis Analysis.
In 2018, China was the largest importer in the region, with total imports of USD 1.9tn, making up 15% of its GDP.

Asia Pacific’s Major Importers (2018E)

In China, increasing domestic consumption has led to growth in imports.

Note: 1. 2016 data used for countries marked with an asterisk.
2. For Bangladesh, Papua New Guinea and Bhutan trade data is not available.
Source: IMF; UN Comtrade; China Customs; The Beijing Axis Analysis.
In 2017, China was the largest importer in the region, with total imports of USD 1.8tn, making up 15% of its GDP.

### Asia Pacific’s Major Importers (2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Imports (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,000</td>
</tr>
<tr>
<td>Japan</td>
<td>1,500</td>
</tr>
<tr>
<td>South Korea</td>
<td>1,000</td>
</tr>
<tr>
<td>India</td>
<td>500</td>
</tr>
<tr>
<td>Australia</td>
<td>500</td>
</tr>
<tr>
<td>Indonesia</td>
<td>500</td>
</tr>
<tr>
<td>Pakistan</td>
<td>200</td>
</tr>
<tr>
<td>Macau*</td>
<td>200</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>30</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>20</td>
</tr>
<tr>
<td>Mongolia*</td>
<td>10</td>
</tr>
<tr>
<td>Nepal</td>
<td>10</td>
</tr>
<tr>
<td>Brunei</td>
<td>10</td>
</tr>
<tr>
<td>Myanmar</td>
<td>10</td>
</tr>
<tr>
<td>Philippines</td>
<td>10</td>
</tr>
<tr>
<td>Afghanistan*</td>
<td>10</td>
</tr>
<tr>
<td>Taiwan*</td>
<td>10</td>
</tr>
<tr>
<td>Thailand*</td>
<td>10</td>
</tr>
<tr>
<td>Vietnam*</td>
<td>10</td>
</tr>
<tr>
<td>Cambodia*</td>
<td>10</td>
</tr>
<tr>
<td>New Zealand</td>
<td>10</td>
</tr>
<tr>
<td>Macau*</td>
<td>10</td>
</tr>
<tr>
<td>Nepal</td>
<td>10</td>
</tr>
<tr>
<td>Brunei</td>
<td>10</td>
</tr>
<tr>
<td>Myanmar</td>
<td>10</td>
</tr>
<tr>
<td>Philippines</td>
<td>10</td>
</tr>
<tr>
<td>Afghanistan*</td>
<td>10</td>
</tr>
<tr>
<td>Taiwan*</td>
<td>10</td>
</tr>
<tr>
<td>Thailand*</td>
<td>10</td>
</tr>
<tr>
<td>Vietnam*</td>
<td>10</td>
</tr>
<tr>
<td>Cambodia*</td>
<td>10</td>
</tr>
</tbody>
</table>

**Note:** 1. 2016 data used for countries marked with an asterisk.
2. For Bangladesh, Papua New Guinea and Bhutan trade data is not available.

Source: IMF; UN Comtrade; China Customs; The Beijing Axis Analysis
China is the world’s largest importer of electrical machinery and equipment. In 2017, China imported a total of USD 458bn, or 19% of the world’s electrical machinery and equipment imports.

China’s Top 10 Import Commodities 2017 (HS Code)

Total: USD 1,844bn

- **85** Electrical machinery and equipment (25%)
- **27** Mineral fuels, mineral oil and products of their distillation (14%)
- **84** Nuclear reactors, machinery and mechanical appliances (9%)
- **26** Ores, slag, ash (7%)
- **90** Optical, photographic and cinematographic, equipment (5%)
- **39** Plastics (4%)
- **47** Ores, slag, ash (4%)
- **71** Pearls and other precious stones (3%)
- **29** Organic chemicals (2%)
- **12** Oil seed (23%)
- **Other**

Top 20 Importers of Electrical Machinery (USD bn, 2017)

- **China**: USD 457.6
- **US**: USD 200.2
- **Hong Kong**: USD 180.1
- **Germany**: USD 120.9
- **Japan**: USD 110.2
- **Singapore**: USD 100.7
- **Mexico**: USD 90.6
- **South Korea**: USD 80.5
- **UK**: USD 70.5
- **Malaysia**: USD 60.5
- **France**: USD 50.5
- **Netherlands**: USD 40.5
- **India**: USD 30.5
- **Canada**: USD 20.5
- **Italy**: USD 10.5
- **Czech Republic**: 5.5
- **Russia**: 4.5
- **Poland**: 4.5
- **Spain**: 4.5
- **Philippines**: 4.5

Driven by demand from China’s industrial sector.

Source: UN Comtrade; China Customs; The Beijing Axis Analysis
China became the world’s largest importer of mineral fuels. In 2017, China imported a total of USD 250bn, or 13% of the world’s mineral fuels imports.

China’s Top 10 Import Commodities 2017 (HS Code)

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>Total (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>Electrical machinery and equipment</td>
<td>250</td>
</tr>
<tr>
<td>27</td>
<td>Mineral fuels, mineral oil and products of their distillation</td>
<td>250</td>
</tr>
<tr>
<td>84</td>
<td>Nuclear reactors, machinery and mechanical appliances</td>
<td>250</td>
</tr>
<tr>
<td>26</td>
<td>Ores, slag, ash</td>
<td>250</td>
</tr>
<tr>
<td>90</td>
<td>Optical, photographic and cinematographic, equipment</td>
<td>250</td>
</tr>
<tr>
<td>87</td>
<td>Vehicles other than railway, tramway</td>
<td>250</td>
</tr>
<tr>
<td>39</td>
<td>Plastics</td>
<td>250</td>
</tr>
<tr>
<td>71</td>
<td>Pearls and other precious stones</td>
<td>250</td>
</tr>
<tr>
<td>29</td>
<td>Organic chemicals</td>
<td>250</td>
</tr>
<tr>
<td>12</td>
<td>Oil seed</td>
<td>250</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>250</td>
</tr>
</tbody>
</table>

Top 20 Importers of Mineral Fuels (USD bn, 2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>19.3</td>
<td>250</td>
</tr>
<tr>
<td>US</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Driven by both industry and growing personal consumption.

Source: UN Comtrade; China Customs; The Beijing Axis Analysis
China is the world’s 2nd largest importer of power generating equipment. In 2017, China imported a total of USD 170bn, or nearly 9% of the world’s power generating equipment imports.

China’s Top 10 Import Commodities 2017 (HS Code)

<table>
<thead>
<tr>
<th>Total: USD 1,844bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>85 Electrical machinery and equipment 25%</td>
</tr>
<tr>
<td>27 Mineral fuels, mineral oil and products of their distillation 14%</td>
</tr>
<tr>
<td>84 Nuclear reactors, machinery and mechanical appliances 9%</td>
</tr>
<tr>
<td>26 Ores, slag, ash 7%</td>
</tr>
<tr>
<td>90 Optical, photographic and cinematographic, equipment 5%</td>
</tr>
<tr>
<td>87 Vehicles other than railway, tramway 4%</td>
</tr>
<tr>
<td>39 Plastics 4%</td>
</tr>
<tr>
<td>71 Pearls and other precious stones 3%</td>
</tr>
<tr>
<td>29 Organic chemicals 23%</td>
</tr>
<tr>
<td>12 Oil seed</td>
</tr>
<tr>
<td>Other</td>
</tr>
</tbody>
</table>

Top 20 Importers of Power Generation Equipment (USD bn, 2017)

- **US** 349.0
- **China**
- Germany
- France
- UK
- Mexico
- Japan
- Canada
- Hong Kong
- South Korea
- Netherlands
- Russia
- Singapore
- Italy
- India
- Taiwan
- Spain
- Belgium
- Australia
- Czech Republic

Driven by growing industrial demand from China.

China’s Top 10 Import Commodities 2002 vs 2017

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import of Power Generation Equipment (USD bn)</td>
<td>52.1</td>
<td>169.5</td>
</tr>
<tr>
<td>% of World Total</td>
<td>5.8</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Source: UN Comtrade; China Customs; The Beijing Axis Analysis.
China is the world’s largest importer of ores, slag and ash. In 2017, China imported a total of USD 126.4 bn, or over 55% of the world’s total imports of ores, slag and ash.

**China’s Top 10 Import Commodities 2017 (HS Code)**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2017 (USD bn)</th>
<th>2002 (USD bn)</th>
<th>2017%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical machinery and equipment</td>
<td>453.3</td>
<td>18.0</td>
<td>23%</td>
</tr>
<tr>
<td>Mineral fuels, mineral oil and products of their distillation</td>
<td>126.4</td>
<td>4.3</td>
<td>55.7%</td>
</tr>
<tr>
<td>Nuclear reactors, machinery and mechanical appliances</td>
<td>90.2</td>
<td>3.6</td>
<td>5.4%</td>
</tr>
<tr>
<td>Ores, slag, ash</td>
<td>82.2</td>
<td>3.2</td>
<td>4.5%</td>
</tr>
<tr>
<td>Opt. photographic and cinematographic, equipment</td>
<td>45.7</td>
<td>1.9</td>
<td>2.6%</td>
</tr>
<tr>
<td>Vehicles other than railway, tramway</td>
<td>43.8</td>
<td>1.7</td>
<td>2.6%</td>
</tr>
<tr>
<td>Plastics</td>
<td>36.0</td>
<td>1.5</td>
<td>2.3%</td>
</tr>
<tr>
<td>Pearls and other precious stones</td>
<td>27.2</td>
<td>1.1</td>
<td>1.7%</td>
</tr>
<tr>
<td>Organic chemicals</td>
<td>24.3</td>
<td>1.0</td>
<td>1.5%</td>
</tr>
<tr>
<td>Oil seed</td>
<td>20.2</td>
<td>0.8</td>
<td>1.3%</td>
</tr>
<tr>
<td>Other</td>
<td>10.3</td>
<td>0.4</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Source: UN Comtrade; China Customs; The Beijing Axis Analysis
China is the world’s largest importer of optical and photographic equipment. In 2017, China imported a total of USD 98bn, or nearly 18% of the world’s total imports of optical and photographic equipment.

China’s Top 10 Import Commodities 2017 (HS Code)

Total: USD 1,844bn

- 85 Electrical machinery and equipment (25%)
- 27 Mineral fuels, mineral oil and products of their distillation (14%)
- 84 Nuclear reactors, machinery and mechanical appliances (9%)
- 26 Ores, slag, ash (7%)
- 87 Vehicles other than railway, tramway (6%)
- 39 Plastics (5%)
- 71 Pearls and other precious stones (4%)
- 4 Organic chemicals (4%)
- 29 Oil seed (4%)
- 12 Other (3%)

Top 20 Importers of Optical and Photographic Equipment (USD bn, 2017)

- China (97.4)
- US
- Germany
- Japan
- Netherlands
- South Korea
- France
- UK
- Hong Kong
- Mexico
- Belgium
- Italy
- Canada
- Singapore
- Taiwan
- India
- Spain
- Australia
- Switzerland
- Russia

Driven by the growth of the middle class and evolving consumer tastes.

Note: There is no data for Thailand in 2017
Source: UN Comtrade; China Customs; The Beijing Axis Analysis
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China has been amongst the top 3 largest providers of global FDI during 2015 - 2017

Top 20 World FDI Outflows (USD bn, 2015-2017)

Note: 1. British Virgin Islands and Cayman Islands are not included in the ranking because of their nature as offshore financial centres (most FDI is in transit)

2. To make international comparisons, this section utilizes China’s FDI and OFDI figures from the WIR 2016/17/18 instead of figures from MOFCOM

Source: WIR 2018; The Beijing Axis Analysis
In 2017, China remained a key player in FDI inflows and outflows, ranking 2\textsuperscript{nd} and 3\textsuperscript{rd} respectively in the world on both fronts.

**Top 20 World FDI Inflows (USD bn, 2017)**

- US
- China
- Hong Kong
- Brazil
- Singapore
- Netherlands
- France
- Australia
- Switzerland
- India
- Germany
- Mexico
- Ireland
- Russia
- Canada
- Indonesia
- Spain
- Israel
- Italy
- South Korea

In 2017, China ranked 2\textsuperscript{nd}.

**Top 20 World FDI Outflows (USD bn, 2017)**

- US
- Japan
- China
- UK
- Hong Kong
- Germany
- Canada
- France
- Luxembourg
- Spain
- Russia
- South Korea
- Singapore
- Sweden
- Netherlands
- Belgium
- Thailand
- Ireland
- UAE
- Taiwan

In 2017, China ranked 3\textsuperscript{rd}.

Source: WIR 2018; The Beijing Axis Analysis
In 2017, China ranked 4th overall and 2nd in Asia for OFDI stock with USD 1,491bn. For FDI inward stock, it ranked 8th with USD 1,482bn.
China is home to some of the world’s largest sovereign wealth funds, which are playing key roles in overseas investment.
While China’s sovereign wealth funds are some of the largest in the world, the ranking continues to be dominated by Middle East and East Asian countries.

### Ranking of World’s Top 20 Sovereign Wealth Funds (USD bn, Nov 2018)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Economy</th>
<th>Fund</th>
<th>Type</th>
<th>Assets under management (USD bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Norway</td>
<td>Government Pension Fund – Global</td>
<td>Oil</td>
<td>1058.05</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>China Investment Corporation</td>
<td>Non-Commodity</td>
<td>941.40</td>
</tr>
<tr>
<td>3</td>
<td>UAE – Abu Dhabi</td>
<td>Abu Dhabi Investment Authority</td>
<td>Oil</td>
<td>683.00</td>
</tr>
<tr>
<td>4</td>
<td>Kuwait</td>
<td>Kuwait Investment Authority</td>
<td>Oil</td>
<td>592.00</td>
</tr>
<tr>
<td>5</td>
<td>China – Hong Kong</td>
<td>Hong Kong Monetary Authority Investment Portfolio</td>
<td>Non-Commodity</td>
<td>522.60</td>
</tr>
<tr>
<td>6</td>
<td>Saudi Arabia</td>
<td>SAMA Foreign Holdings</td>
<td>Oil</td>
<td>515.60</td>
</tr>
<tr>
<td>7</td>
<td>China</td>
<td>SAFE Investment Company</td>
<td>Non-Commodity</td>
<td>441.00</td>
</tr>
<tr>
<td>8</td>
<td>Singapore</td>
<td>Government of Singapore Investment Corporation</td>
<td>Non-Commodity</td>
<td>390.00</td>
</tr>
<tr>
<td>9</td>
<td>Singapore</td>
<td>Temasek Holdings</td>
<td>Non-Commodity</td>
<td>375.00</td>
</tr>
<tr>
<td>10</td>
<td>Saudi Arabia</td>
<td>Public Investment Fund</td>
<td>Oil</td>
<td>360.00</td>
</tr>
<tr>
<td>11</td>
<td>Qatar</td>
<td>Qatar investment Authority</td>
<td>Oil &amp; Gas</td>
<td>320.00</td>
</tr>
<tr>
<td>12</td>
<td>China</td>
<td>National Social Security Fund</td>
<td>Non-Commodity</td>
<td>295.00</td>
</tr>
<tr>
<td>13</td>
<td>UAE – Dubai</td>
<td>Investment Corporation of Dubai</td>
<td>Non-Commodity</td>
<td>233.80</td>
</tr>
<tr>
<td>14</td>
<td>UAE – Abu Dhabi</td>
<td>Mabada Investment Company</td>
<td>Oil</td>
<td>226.00</td>
</tr>
<tr>
<td>15</td>
<td>South Korea</td>
<td>Korea Investment Corporation</td>
<td>Non Commodity</td>
<td>134.10</td>
</tr>
<tr>
<td>16</td>
<td>Australia</td>
<td>Australia Future Fund</td>
<td>Non-Commodity</td>
<td>107.70</td>
</tr>
<tr>
<td>17</td>
<td>Iran</td>
<td>National Development Fund of Iran</td>
<td>Oil &amp; Gas</td>
<td>91.00</td>
</tr>
<tr>
<td>18</td>
<td>Russia</td>
<td>National Welfare Fund</td>
<td>Oil</td>
<td>77.20</td>
</tr>
<tr>
<td>19</td>
<td>Libya</td>
<td>Libyan Investment Authority</td>
<td>Oil</td>
<td>66.00</td>
</tr>
<tr>
<td>20</td>
<td>US- Alaska</td>
<td>Alaska Permanent Fund</td>
<td>Oil</td>
<td>65.70</td>
</tr>
</tbody>
</table>

Source: Sovereign Wealth Fund Institute; The Beijing Axis Analysis
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In 2017, China had the world’s third largest current account surplus at over USD 163bn, behind Japan at USD 175bn and Germany at USD 296bn.
China, the world’s largest foreign exchange reserves holder, has more than twice the FX reserves of the 2nd largest holder, Japan. Asian countries largely dominate the top 30

**Top 30 Largest Holders of Foreign Exchange and Gold Reserves (USD bn, Q4 2017E)**

Note: Estimates are as of 31 December 2017
Source: CIA World Factbook; The Beijing Axis Analysis
In 2017, China’s external debt was around USD 1,649bn and accounted for just over 1% of the world’s total external debt.

Top 30 Economies with Largest External Debt (USD bn, 2017E)

At the end of Q4 2017, China’s external debt amounted to USD 1,649bn.

1. These are CIA World Factbook figures; 2014 estimate has been used for EU because data for 2017 was not available.

Source: CIA World Factbook; The Beijing Axis Analysis
China’s discount rate is relatively low at 2.25%, which is lower than that of other large developing economies.

Central Bank Discount Rate\(^1\) of Select Economies (%, 2017\(^2\))

1. The interest rate is charged by a central bank on loans to its member banks. A change in the discount rate is usually followed by similar changes in the interest rates charged by banks and in money markets.
2. The central bank discount rate is updated to the latest available month in 2017.

Note: Data is from CIA World Factbook latest estimates.
Source: CIA World Factbook; The Beijing Axis Analysis.
As of December 2018, China’s prime lending rate was 4.4%, which is comparable to that of its Asia Pacific neighbours Australia, Singapore and New Zealand.

**Commercial Bank Prime Lending Rate** of Selected Economies (%, 2017)

1. Prime lending rate is a short-term interest rate quoted by a commercial bank to its best commercial customers. Even though banks frequently charge more and sometimes less than the quoted prime rate, it is a benchmark against which other rates are measured. For various reasons, a rising prime rate is generally considered detrimental to security prices.

2. CIA World Factbook, 31 December 2017 estimates

Source: CIA World Factbook; The Beijing Axis Analysis
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China is the most populous country in the world with ~ 1.38 billion people. A cultural preference for male heirs has left China with one of the highest male-to-female ratios in the world, alongside India, Saudi Arabia and the UAE.

Population of Top 30 Economies by GDP (mn, 2017E¹)

1. CIA World Factbook estimates are from July 2017

Source: CIA World Factbook; World Bank; The Beijing Axis Analysis
While China currently has a favourable demographic makeup, its working-age population (15-64) is expected to enter a shrinking phase from 2015 onwards, due to a rapidly ageing population.

**Child and Elderly Population for Selected Countries (2017E)**

<table>
<thead>
<tr>
<th>Population under 15 (%)</th>
<th>Population aged 65+ (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>Sweden</td>
</tr>
<tr>
<td>India</td>
<td>Japan</td>
</tr>
<tr>
<td>Mexico</td>
<td>US</td>
</tr>
<tr>
<td>Argentina</td>
<td>Australia</td>
</tr>
<tr>
<td>China 2017</td>
<td>China 2002</td>
</tr>
<tr>
<td>Brazil</td>
<td>Canada</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Thailand</td>
<td>South Korea</td>
</tr>
<tr>
<td>Italy</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Germany</td>
<td>Austria</td>
</tr>
<tr>
<td>France</td>
<td>Italy</td>
</tr>
<tr>
<td>Turkey</td>
<td>Japan</td>
</tr>
<tr>
<td>South Korea</td>
<td>Spain</td>
</tr>
</tbody>
</table>

A bubble this size represents a population of 100mn.

1. CIA World Factbook estimates are from 2017.
Source: CIA World Factbook; World Bank; The Beijing Axis Analysis
China’s social structure is rapidly evolving – the population is becoming richer, more urban, more literate and tech-savvy, and its tastes and consumption patterns are also shifting.

China’s social demographic shift (2009, 2017)

- **Population distribution (mn):**
  - 2009: Urban = 240, Rural = 972
  - 2014: Urban = 253, Rural = 1,024
  - 2017: Urban = 236, Rural = 991

- **Per capita disposable income (USD):**
  - 2009: Urban = 754, Rural = 2,514
  - 2014: Urban = 2,695, Rural = 8,896

- **Population below poverty line (mn):**
  - 2009: Urban = 157, Rural = 82
  - 2014: Urban = 5.8%, Rural = 3.3%

- **% Urbanised population:**

- **Luxury spending (USD bn):**

- **Internet penetration (mn):**
  - 2009: 29%, 2015Q2: 48%, 2017Q2: 53%

- **Mobile subscriptions (mn):**
  - 2009: 384, 2015: 668

- **Literacy rate (mn):**
  - 2010: 1,058, 2015: 1,092

Note: People earning less than USD 1.25 per day are categorised as below poverty line; *Mobile penetration is the overall mobile phones in use and does not take into account individual users.

Source: Various; The Beijing Axis Analysis

- In 2011, China set a new poverty line at RMB 2,300 (approximately USD 400).
- In 2014, 519mn (38% of the population) had access to smartphones – nearly 43% of mobile phones were smartphones.
- In 2014, 519mn (38% of the population) had access to smartphones – nearly 43% of mobile phones were smartphones.
- The decline in luxury spending in 2015 was impacted by the economic slow down and stock market crash in Q2/Q3. Chinese consumption bounced back in 2017, fueled by consumer confidence and the rapid emergence of a new middle class.
- China’s urbanised population is expected to reach 60% in 2020 and 70% by 2030.
China’s level of urbanisation is still much lower than that of other large economies; however, it has one of the fastest growing urbanisation rates at 2.3%

Urban and Rural Population of Selected Economies (%, 2017)

Annual Rate of Urbanisation Change (%, 2015-2020E)

- China: 2.30%
- Indonesia: 2.28%
- India: 2.28%

Source: CIA World Factbook; World Bank; The Beijing Axis Analysis
While the average life expectancy for both men and women in China is higher than that of other large developing economies, it still lags behind more developed economies.

Life Expectancy of Top 30 Economies by GDP (Age, 2017E¹)

1. CIA World Factbook estimates are from 2017
Source: CIA World Factbook; World Bank; The Beijing Axis Analysis
China’s economic activity rate is comparatively larger than those of major developed economies. China has one of the highest female economic activity rate among the world’s top economies.

Adult (15 and Older) Labour Participation Rate (% , 2017¹)

GDP Rank 2016

<table>
<thead>
<tr>
<th>Country</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>62</td>
<td>70.8</td>
</tr>
<tr>
<td>China</td>
<td>59.1</td>
<td>60.3</td>
</tr>
<tr>
<td>Japan</td>
<td>60.8</td>
<td>62.7</td>
</tr>
<tr>
<td>Germany</td>
<td>63.3</td>
<td>54.9</td>
</tr>
<tr>
<td>UK</td>
<td>56.9</td>
<td>53.8</td>
</tr>
<tr>
<td>France</td>
<td>48.3</td>
<td>64.3</td>
</tr>
<tr>
<td>India</td>
<td>67</td>
<td>62.2</td>
</tr>
<tr>
<td>Italy</td>
<td>65.4</td>
<td>67.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>60.8</td>
<td>50.3</td>
</tr>
<tr>
<td>Canada</td>
<td>63.6</td>
<td>68.5</td>
</tr>
<tr>
<td>South Korea</td>
<td>54.5</td>
<td>61</td>
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¹ Modeled according to ILO estimates of population ages 15+ for 2017
Source: International Labour Organization; The Beijing Axis Analysis
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Executive Summary – at the Highest Level

Analysis and Key Findings

1. China set to maintain GDP growth of above 6% over the short-to-medium term (2019); over the next 2-3 years GDP growth of around 5.5-6.5%, well above world average
2. Transformation of China’s economy already more broad-based, yielding different winners and losers; many challenges and reform needs are even more pressing
3. Innovation, increased investment in R&D, and technology leadership in many areas are becoming pervasive
4. Financial, structural, and socio-economic risks are numerous and serious, but we do not see growth faltering; debt situation is acute but will still be managed
5. There is significant change in China’s manufacturing base, export profile, and trade composition, i.e. less growth in certain low-cost segments but new strength in high-end (but the higher cost of doing business is very real)
6. There is also a rapid change in the composition and growth rates of imports, as the transformation to middle and higher income continues; consumerism is rampant and large opportunities are developing for exporters to China
7. New dynamism and complexity, as the country embraces digitalisation, online trends and the adoption/diffusion of new business models – at an accelerating rate of change
8. Shifting geopolitical and geostrategic landscape in a more competitive world; China is now fully emerging as an equal power to the US despite some views to the contrary
9. A new comprehensive and assertive global engagement and increased influence worldwide characterises China’s external game – but this is not universally welcomed causing tensions
10. China’s integration in the world plays out in many areas and has wide impact, i.e. in regional and global politics, trade, investment flows and various fora

Conclusions and Implications

1. China remains top driver for global growth and a key inbound / outbound supply chain partner for companies worldwide (but slowdown exposes certain sectors/markets)
2. Opportunities emerge in new sectors due to broad-based transformation; many challenges for traditional sectors - previous winners must re-invent and adapt, or die
3. China is emerging as a leader in high-value added manufacturing and exporting more high-end products, increasingly competing with Japan, US, Germany, etc.
4. China’s competitive model changes dramatically – takes most of the world by surprise as it shifts from low-cost to high-end technology; but cost increases opens the door for lower-cost countries and players in India, Southeast Asia, etc.
5. Becoming more difficult to project in which sectors and how China will compete in 2-5 years, let alone over the long term; and where/how other nations will be able to defend/win market share – need for solid strategic intelligence
6. China’s growing demand for agri-processing, high-end products, tech, and services, makes it the fastest-growing, large market; but selling to China has many challenges
7. Increased e-commerce, fintech, digitalisation, and emergence of the shared economy yield new and vast opportunities; but must be understood (and go-to-market implementation costs!)
8. Deeper reforms are set to continue resulting in losers that exit the market; and new winners & champions are emerging
9. China’s influence is rising; more assertive and confident China assumes new international and diplomatic stance that may challenge incumbents and existing arrangements via fora, initiatives, and institutions such as BRI, FOCAC, and AIIB
10. Change requires effective and comprehensive (and multi-dimensional) view of China and engagement as a partner, financier, competitor, producer, influencer, leader, etc.

Recommendations

1. Recalibrate China procurement and inbound supply chains as China shifts to higher cost and higher value-add manufacturing and supply; adapt supply focus i.e. potentially shift to tier-2 suppliers in China and tier-1 suppliers in lower-cost Asia – anticipate a dynamic supply environment
2. Businesses with complex supply chains must develop a supply market portfolio approach where China is still prominent (even dominant) but new supply clusters in other lower-cost areas must be cultivated. There is an unfolding shift from China (2005), to China+1 or +2 (2015), to true international sourcing (2020) or even full-scale global sourcing (2025) – China will remain key but with new characteristics
3. Look to China for higher-end solutions and technology in industries where it has gained an advantage; be open to sourcing of services, turnkey project solutions, and high-end ‘designed and engineered’ solutions from China
4. Use strong risk radar to target relevant industry clusters & supply; anticipate change; supplier health checks now crucial
5. Tap demand in the Chinese industrial and household consumer market - develop modern China sales strategies and create online & offline channels; success requires good implementation and astute management & teams
6. Confirm the relevant ‘hot sectors’ for your business i.e. agri, agri-processing, food products, advanced machinery, and healthcare are some of the key areas for international brands; develop RTM with right partners that add value - identify the right partners in all dealings via solid DD
7. Leverage China’s new outbound capital and pursue China as a capital partner; recognize the changing dynamics in sector/regional focus, deal structures, and regulation
8. Three keys to China capital: adopt appropriate process to articulate investment opportunity to correct targets
9. Tap into high-quality strategic intelligence for strategy processes; deploy stellar implementation teams
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