China-CEEC Liaison Mechanism for
Investment Promotion Agencies

CHINA-CENTRAL AND EASTERN EUROPE INVESTMENT COOPERATION REPORT

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I. Overview

1.1.1 Geography

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

1.1.2 Climate

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

1.1.3 Political system

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

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

1.1.4 Basic economic system

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

1.1.5 Administrative divisions and regional economies

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

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

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

1.1.5.1 Other divisions

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

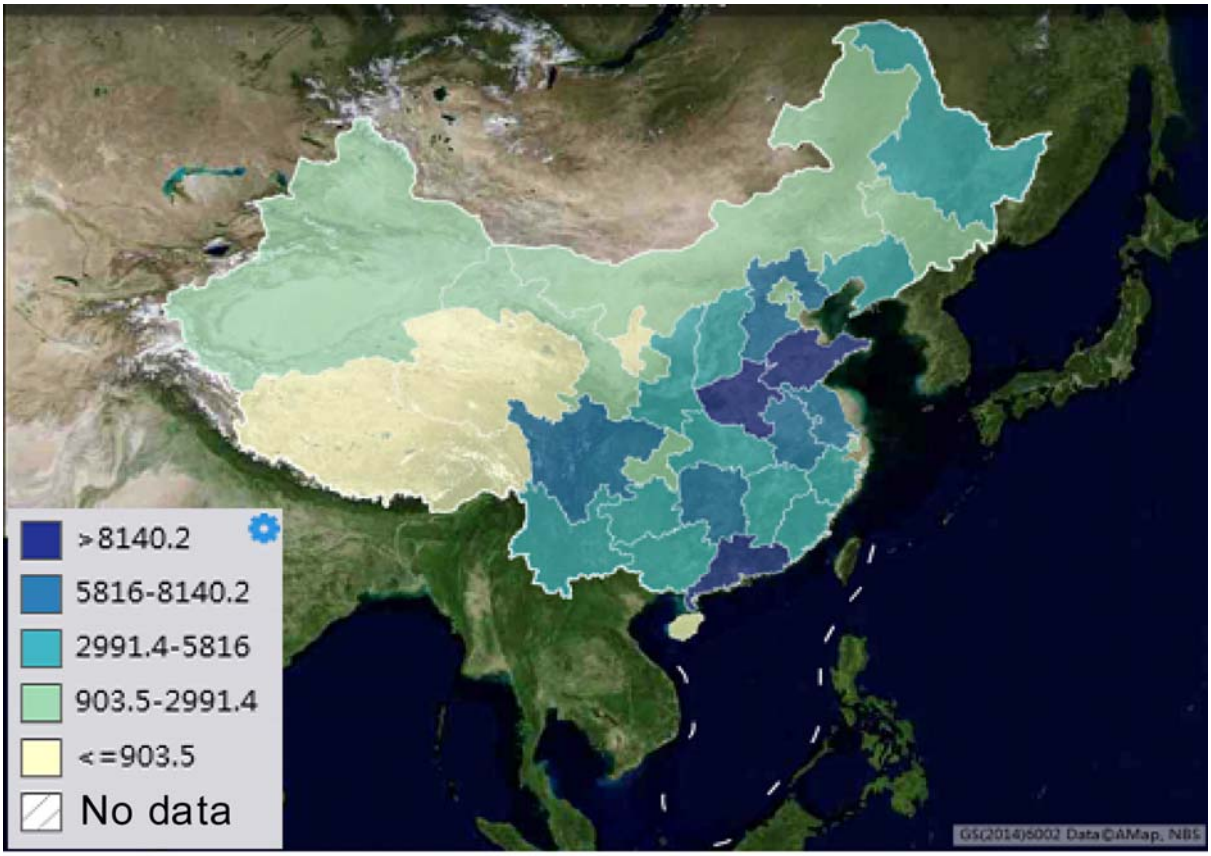
- **The east region,** which includes Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Hainan;
- **The central region,** which includes Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan;
- **The west region,** which includes Sichuan, Chongqing,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

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

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

1.1.6 Population

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



Source: National Bureau of Statistics (NBS)

1.1.7 Ethnic groups and culture

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

II Natural Resources

1.2.1 Land

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

1.2.2 Energy

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

1.2.3 Minerals

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

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

Source: NBS

1.2.4 Forests

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

1.2.5 Maritime resources

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

III China's Economy in a New Era

1.3.1 The "new normal"

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

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

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

According to data from National Bureau of Statistics (NBS), consumption-driven growth outweighed investment-driven growth in 2014[1]; value added of the service industry took up more share in the GDP than that of the secondary industry; high-tech industry and equipment manufacturing industry grew faster than average industrial growth; energy consumption per unit of GDP was on the decline[2]. These data suggest that the Chinese economy is shifting towards growth of better quality.

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

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

1.3.2 Transformation brings new opportunities

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

1.3.2.1 Transformation in consumption

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

1.3.2.2 Transformation in trade

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

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

1.3.2.3 Transformation in investment

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

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

1.3.2.4 The green economy

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

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

1.3.3 Innovation as key engine for future growth

Historically China's traditional industries achieved high growth with high investment, high emission, high pollution, high energy and water consumption, and low efficiency and low added value. It is imperative, therefore, to transform this growth model. During the 12th Five Year Plan (FYP) period[3], emerging industries of strategic importance were given priority and innovation became a key engine for growth.

1.3.3.1 Emerging industries of strategic importance

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

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

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

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

Source: Deloitte

1.3.3.2 Made in China 2025

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

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

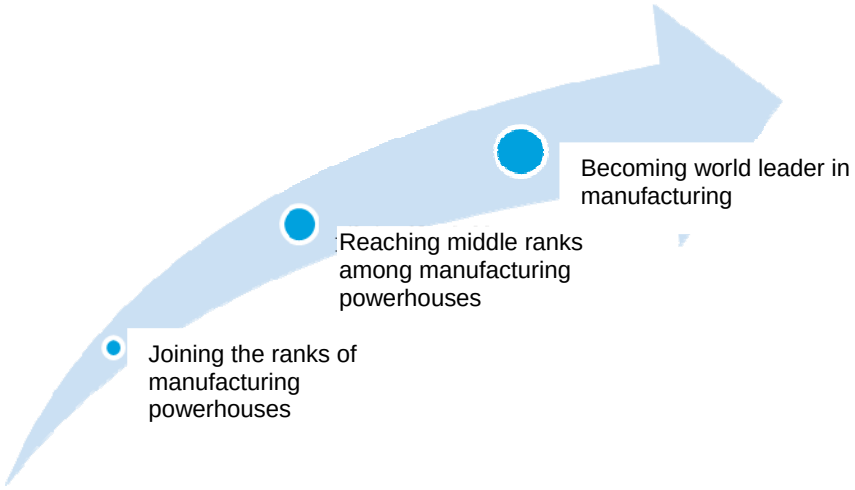
Since its opening up and reform, China has seen rapid development in its manufacturing industry and a full range of industries is well established. However, there is still a long way to go in terms of independent innovation, resource utilization and informatization. It is imperative for China to transform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

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

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

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

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



- **9 tasks**

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

- **10 key sectors**

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

- **5 key projects**

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

1.3.3.3 Internet plus

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

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

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

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

- **Transforming traditional industries**

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

- **Elevating emerging industries**

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

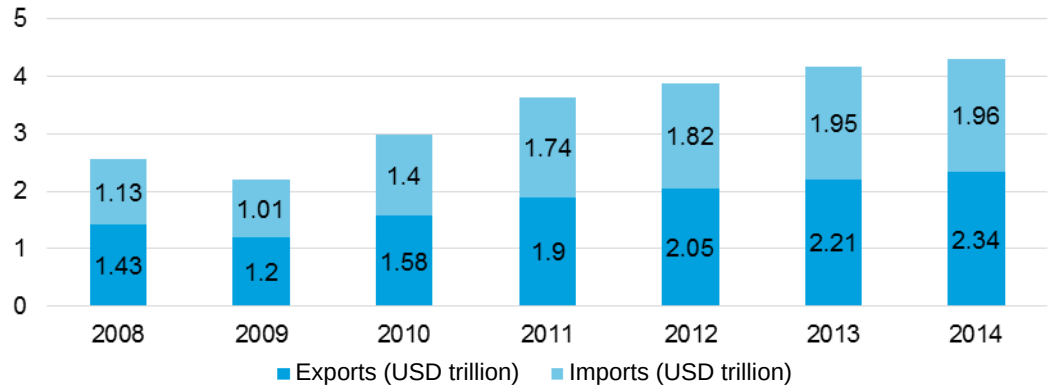
IV. Closer Ties with the World Economy

1.4.1 World’s largest trading nation

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

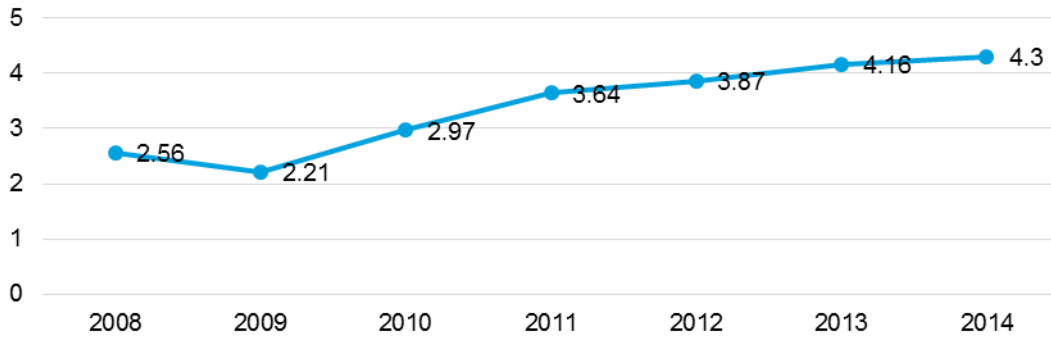
Since 2008, China’s foreign trade has consistently seen growth, with the only exception in 2009, when the global financial crisis hit. In 2013 China surpassed the US for the first time to become the largest trading nation in goods. In 2014 China again overtook the US as the world’s largest economy and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

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



Source: Calculated with Wind data. Final data from NBS

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



Source: Calculated with Wind data. Final data from NBS

1.4.2 A balanced approach for bilateral and multilateral collaboration

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

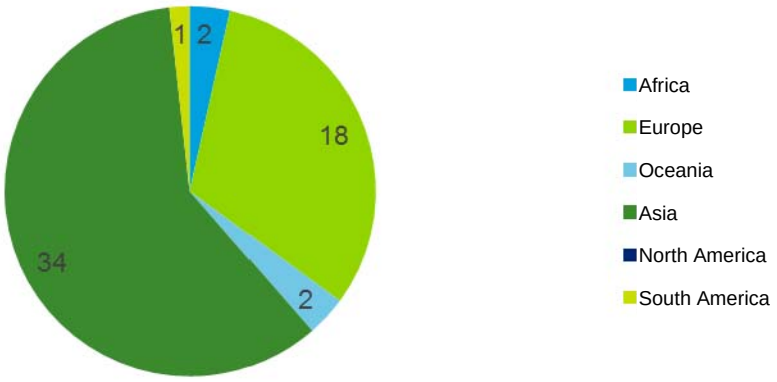
In the meantime, China is making a strategic shift of focus towards a more balanced approach for both bilateral and multilateral collaboration, with a view to promote regional economic integration. Under the WTO framework, China signed FTAs with a number of countries. In 2002, the Framework Agreement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

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

1.4.3 Asian Infrastructure Investment Bank for sustainable development

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

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



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

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

1.4.4 The Belt and Road Initiative

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

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

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

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

V China's Ties with Central and Eastern Europe

1.5.1 Overview of Central and Eastern Europe

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

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

1.5.2 China's trade ties with CEE

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

1.5.2.1 Leaders' summit and trade forum

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

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

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

1.5.2.2 Achievements of China-CEE cooperation mechanism

- **Investment and trade**

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

- **Financial services**

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

- **Cooperation on projects**

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

- **Interconnection**

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

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

- **Cultural exchanges**

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

- **Trade activities**

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

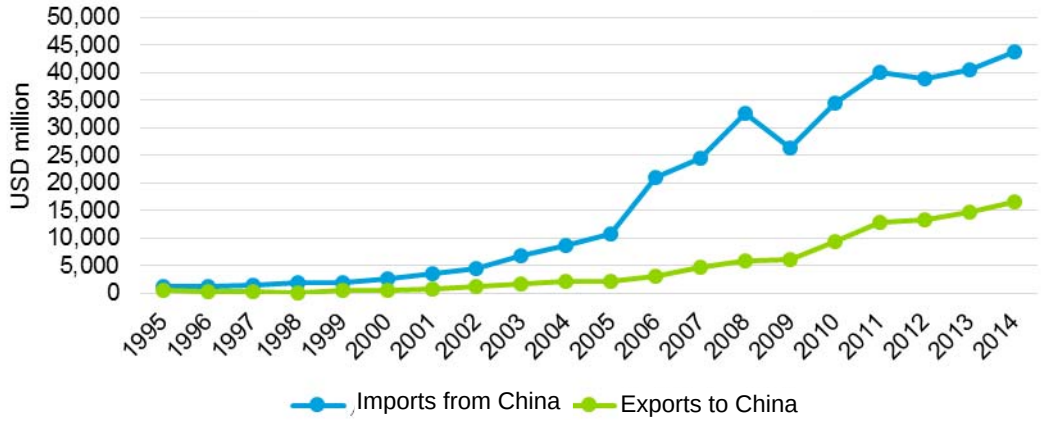
On June 16, 2015, the Chinese Brand Fair was held in Budapest. CEE customers met with more than 130 exhibitors from Shandong, Shanxi, Guangxi, Hebei, Shanghai and Ningbo, covering areas including machinery and electrical equipment, construction materials, fitness equipment, textiles, grocery and food.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

1.5.3 Import and export

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

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

Fig. 1.5.3-1 China-CEE trade

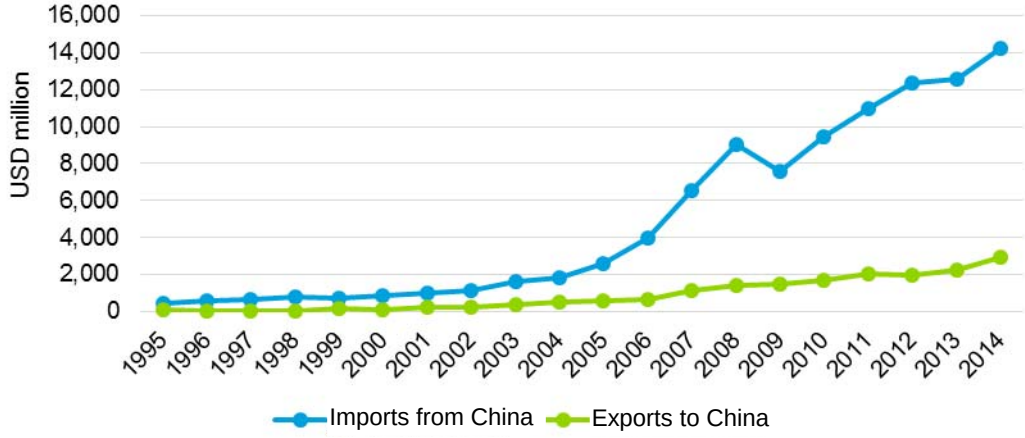


Source: Calculated with Wind data. Final data from NBS

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

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

Fig. 1.5.3-2 China-Poland trade



Source: Calculated with Wind data. Final data from NBS

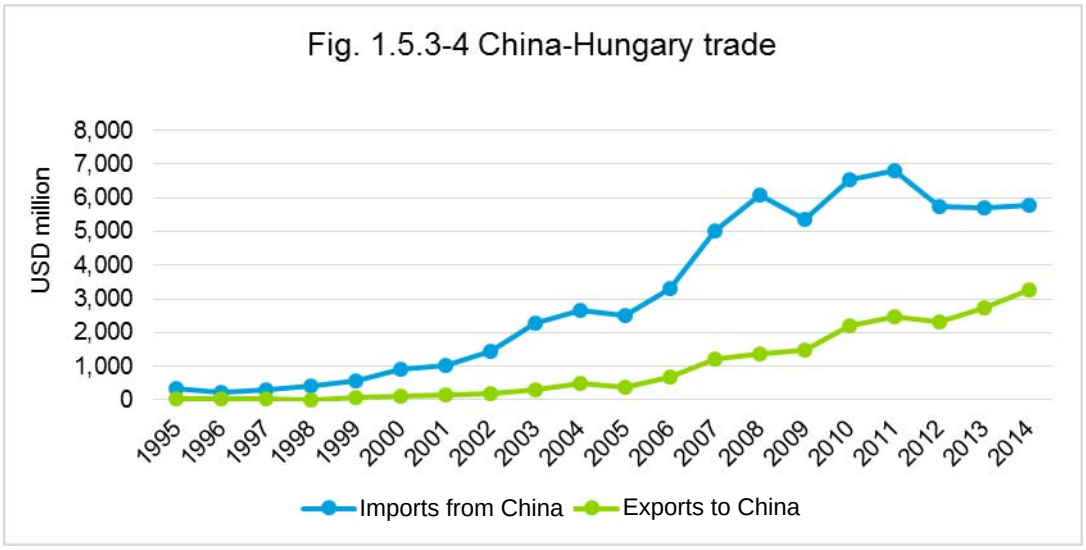
The next two largest trading partners are Czech Republic and Hungary. Czech's imports from China experienced much more fluctuation than that of Poland after the global financial crisis, and again dipped in 2012, while exports to China remained relatively stable. In 2014, total Czech-China trade exceeded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

Fig. 1.5.3-3 China-Czech trade

Source: Calculated with Wind data. Final data from NBS

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

Fig. 1.5.3-4 China-Hungary trade



Source: Calculated with Wind data. Final data from NBS

Chapter Two The Chinese Market

I Foreign Investment in China

2.1.1 Overview of foreign investment

The year of 1978 marked the beginning of China's economic reform. The Law on Chinese-Foreign Equity Joint Ventures was a milestone in China's history of foreign investment. As China's reform continued, foreign investment also expanded and China also optimized its portfolio of industries that received foreign investment. In the 1990s, driven by a host of macroeconomic factors, such as local tax incentives and rapid development of national economic and technology development zones, foreign investment witness strong growth in China, from special economic zones to more developed costal regions, then to inland cities along the border and central-west regions.

Foreign investment played a significant role at each stage of China's development. It was one of the key drivers for the high-speed growth before the "new normal". The foreign-invested enterprises brought capital to support the early stage of the market-oriented reform and boosted export and employment. More importantly, the technology and managerial experience they brought made remarkable contributions to China's integration into the world economic system.

In recent years, foreign investment in China has slowed down, due to factors such as the rising cost, economic restructuring in China and global financial crisis. Moreover, not all capital inflows were aimed at investing in the real economy. The Chinese government and the private sector have gradually come to the realization that too much dependence on foreign investment will lead to negative results. Attracting foreign investment with tax incentives as a major means is now a thing of the past. Local governments are now focusing on creating an enabling business environment as a competitive edge. In general, however, the vast market of China is still full of attractiveness to foreign investment. As China continues its opening up and reform and industrial upgrade, more opportunities constantly appear. According to the World Investment Report published by United Nations Conference on Trade and Development (UNCTAD) in January 2015, China became the world's largest destination of foreign investment in 2014, surpassing the US for the first time since 2003. According to MOFCOM, in 2014 foreign investment actually utilized reached USD 119.56 billion (banking, securities and insurance not included), growing 1.7% YOY, higher than major economies such as the US, EU, Russia and Brazil, and remained number one among developing nations for 23 consecutive years.

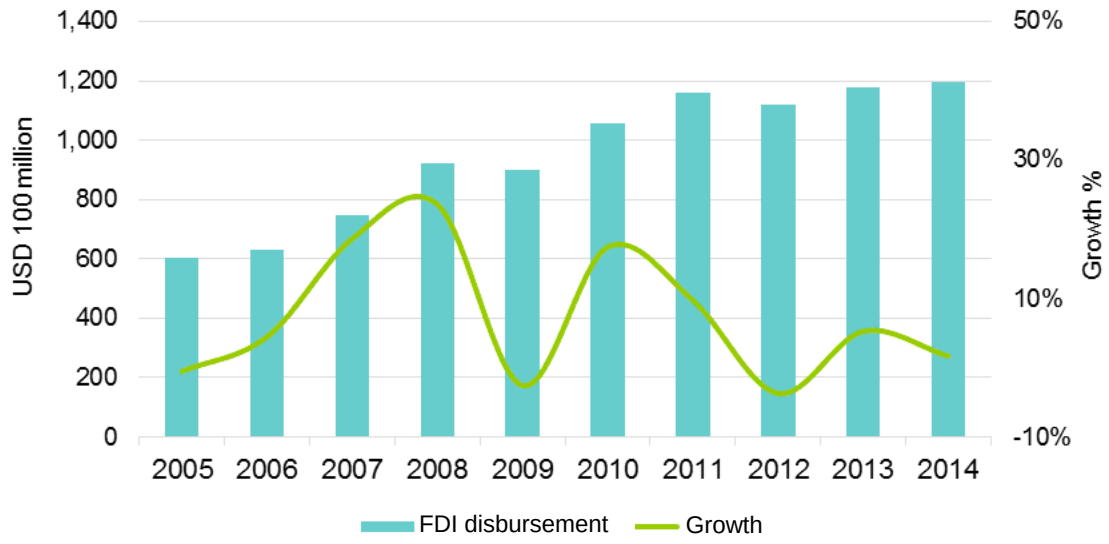
2.1.2 Foreign investment trends in the past decade

Foreign investment in China falls into two categories, foreign direct investment (FDI) and foreign indirect investment (FII). FDI includes Sino-foreign joint ventures, Sino-foreign cooperative enterprises, wholly foreign-owned enterprises and cooperative development; FII includes loans from foreign government, loans from international organizations and loans from foreign financial institutions.

According to NBS, FDI inflows rose steadily before 2008. Between 2005 and 2008, FDI disbursement grew on average by 15.3% annually, reaching 18.64% and 23.56% in 2007 and 2008 respectively. The growth turned negative in 2009 due to the financial crisis. Against a backdrop where total global FDI was declining, however, China still received disbursement of USD 90.033 billion that year, next only to the US.

From 2010 onwards, FDI inflows continued to grow, but at a significantly lower pace. The annual average was only 3.12% between 2010 and 2014, far lower than the 15.3% before the crisis. It grew 1.68 percentage points in 2014 over 2013. In addition, the FDI growth was more volatile in past years, with disbursement down by 3.7 percentage points in 2012.

Fig. 2.1.2-1 FDI disbursement in China and growth, 2005-2014

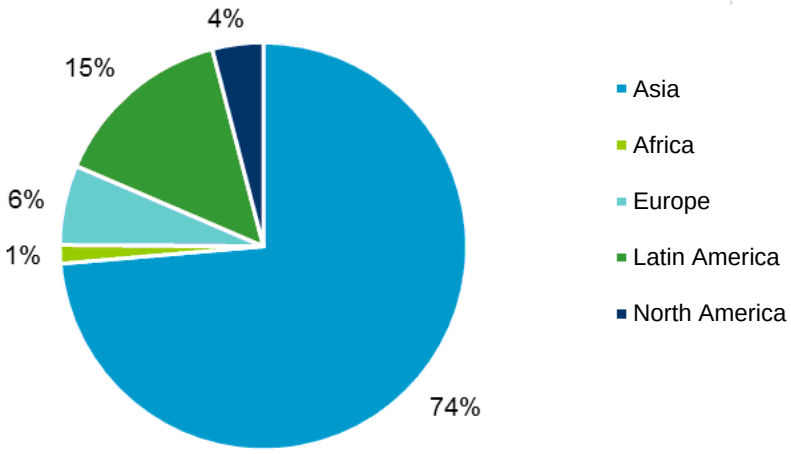


Source: NBS

2.1.3 FDI by country of origin

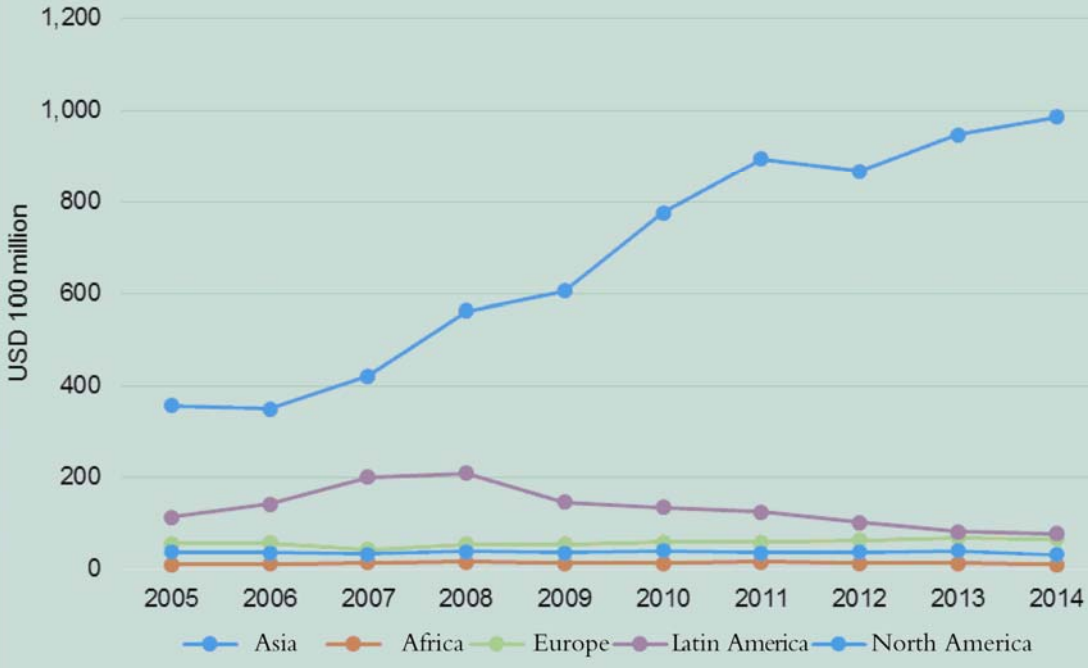
According to NBS, FDI from Asian countries accounted for a lion's share of FDI inflows in the past ten years. Between 2005 and 2014, disbursement from Asian countries accounted for 70%, much higher than that from Latin America, which ranked 2nd. In 2014, China received USD 94.67 billion FDI from Asia.

Fig. 2.1.3-1 FDI disbursement stock in China by region, 2005-2014



Source: NBS

Fig. 2.1.3-2 FDI disbursement in China by region

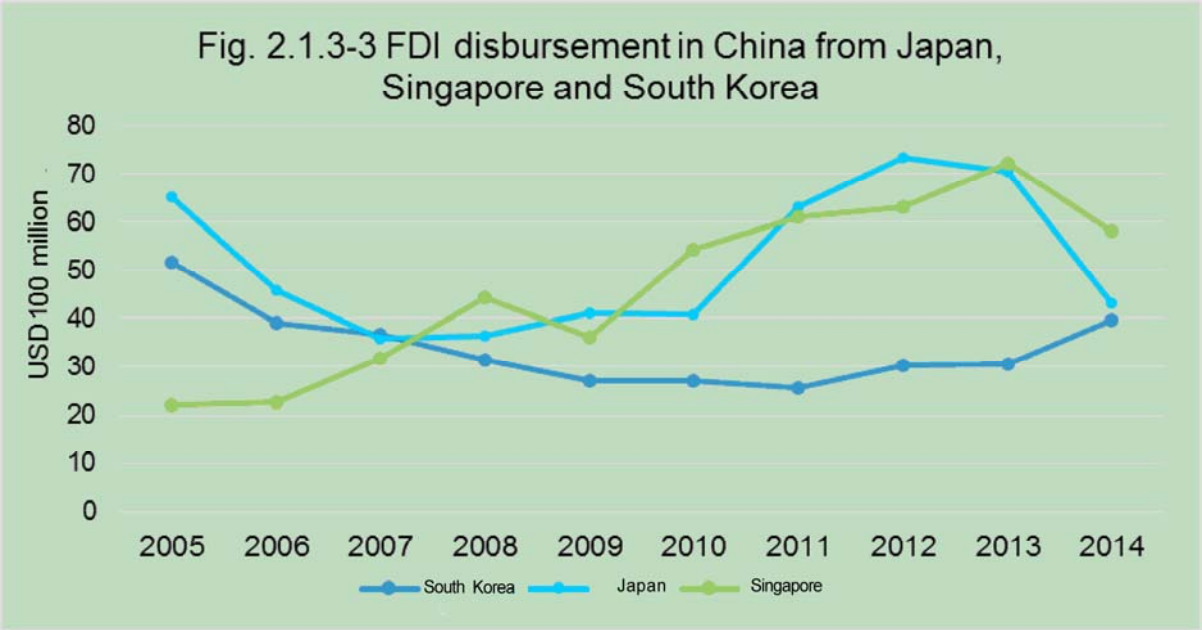


Source: NBS

Starting from 2005, FDI coming from Asia not only ranks top in total value, but also in the value and speed of growth. The annual average growth between 2005 and 2013 was close to 13.0%. In comparison, FDI from Latin America and Europe did not see much growth. After 2009, in particular, FDI from Latin America started to decline.

In Asia, FDI from Hong Kong ranked top in value in the decade between 2005 and 2014, reaching USD 81.27 billion in 2014, far higher than that from other Asian countries and regions. Country-wise the top three were Japan, Singapore and South Korea.

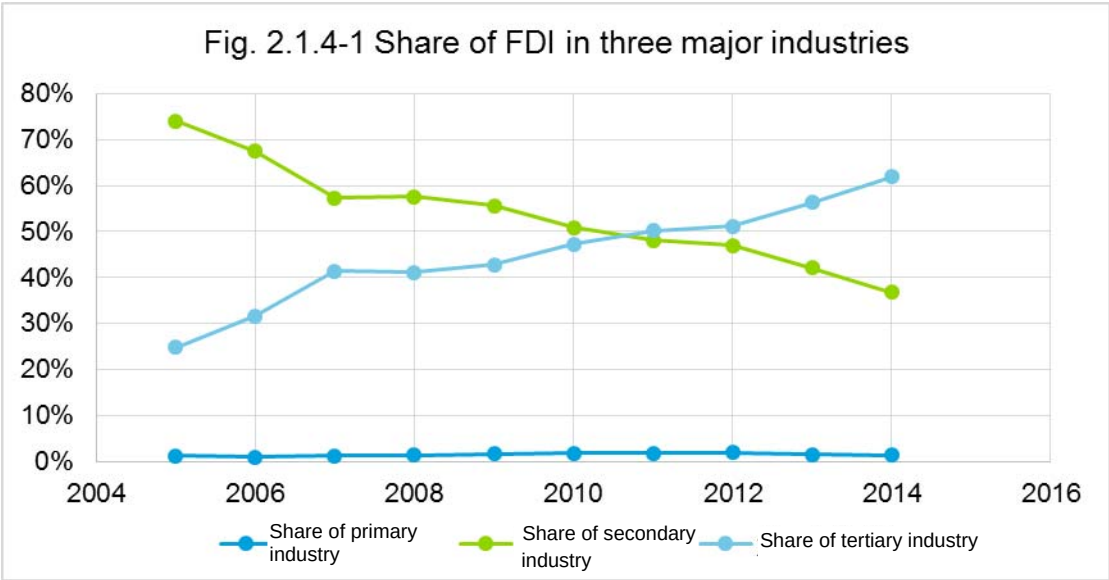
Among the three countries, Singapore had the most visible growth in its FDI in China, growing 11.4% annually on average between 2005 and 2014. FDI from Japan saw high volatility, reaching a record high of 55% in growth in 2011, only to plunge 38.7% in 2014. FDI from South Korea declined slowly between 2005 and 2009, followed by small ups and downs, without a clear trend for growth.



Source: NBS

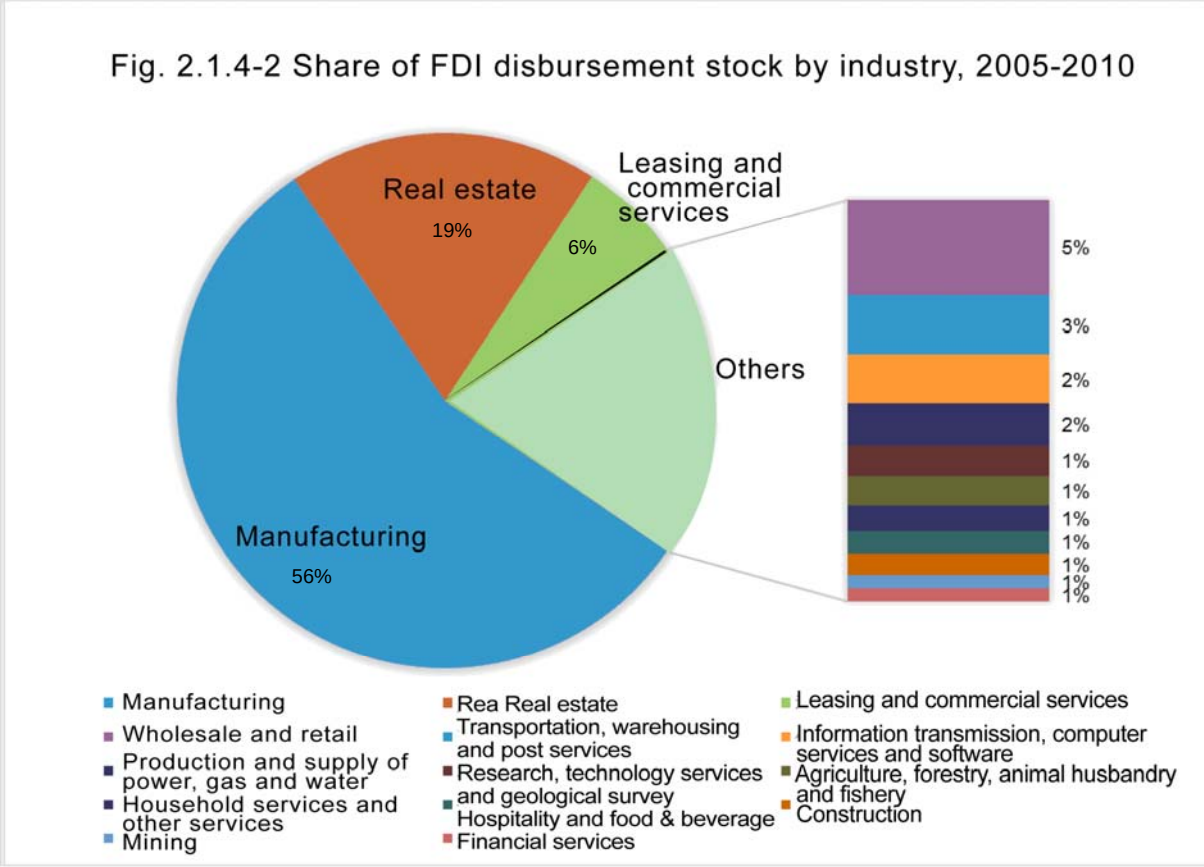
2.1.4 FDI by industry

As China started to transform its industries, the profile of industries that received FDI was also going through major changes. Before 2010, most FDI flowed into the secondary industry, but the share was gradually declining. In 2011, disbursement of FDI in the tertiary industry overtook that of the secondary industry for the first time. This phenomenon partially validated the theory of three stages in economic development. China is gradually entering the third stage, where the manufacturing sector will slow down and the tertiary industry will replace the secondary industry as the main driver for growth.



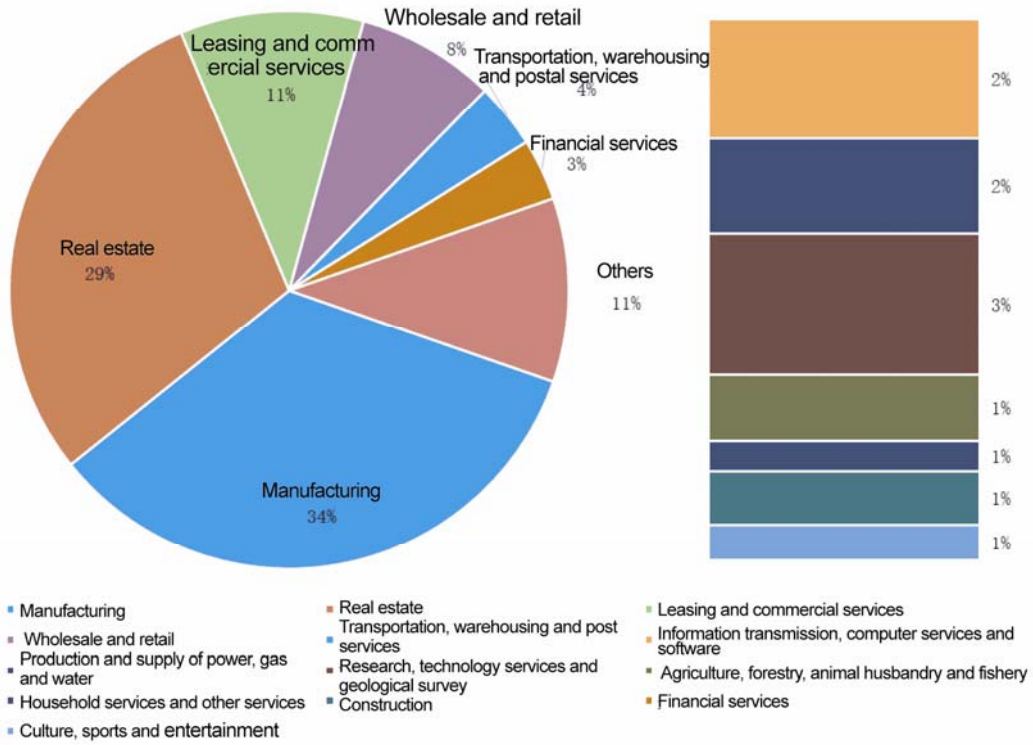
Source: NBS

Specifically, between 2005 and 2014 FDI in the agriculture industry (farming, forestry, animal husbandry and fishery) first grew then declined, from USD 718 million in 2005 to 2.062 billion in 2012, then to 1.522 billion in 2014. Also agriculture has accounted for a very small share in FDI inflows, no more than 2% historically.



Source: NBS

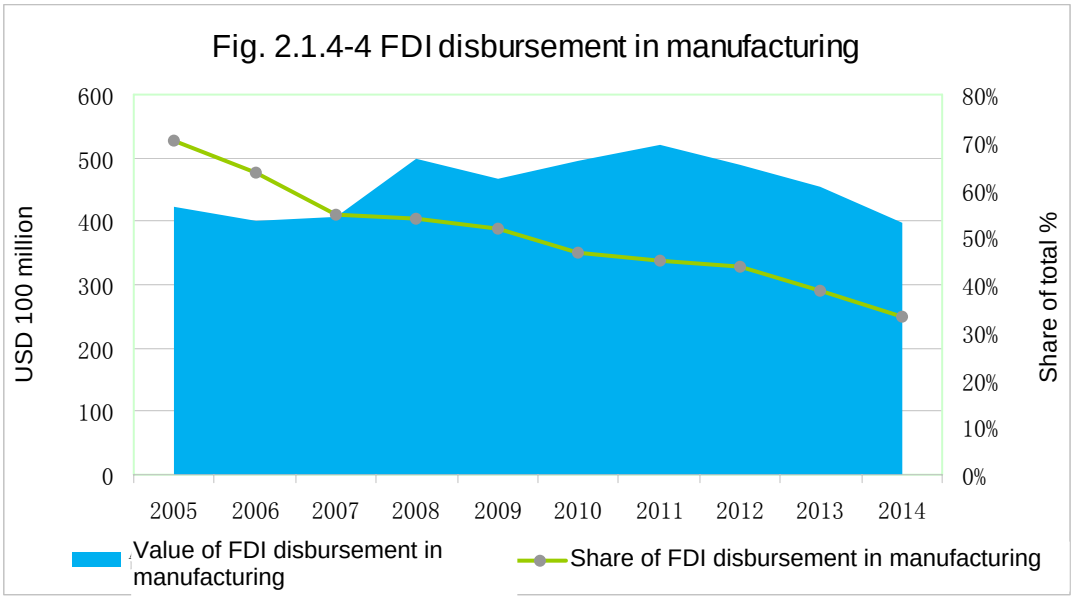
Fig. 2.1.4-3 Share of FDI disbursement stock by industry, 2011-2014



Source: NBS

Secondly, the share FDI into the secondary industry has been on the decline, from 74.08% in 2005 to 36.75% in 2014. The absolute value also started to decline after 2011, going down 7.6 percentage points on an annual average. A closer look, however, suggests that between 2005 and 2014, FDI in the manufacturing sector still take a dominant share, but the share is indeed declining, in line with the trend in the whole secondary industry.

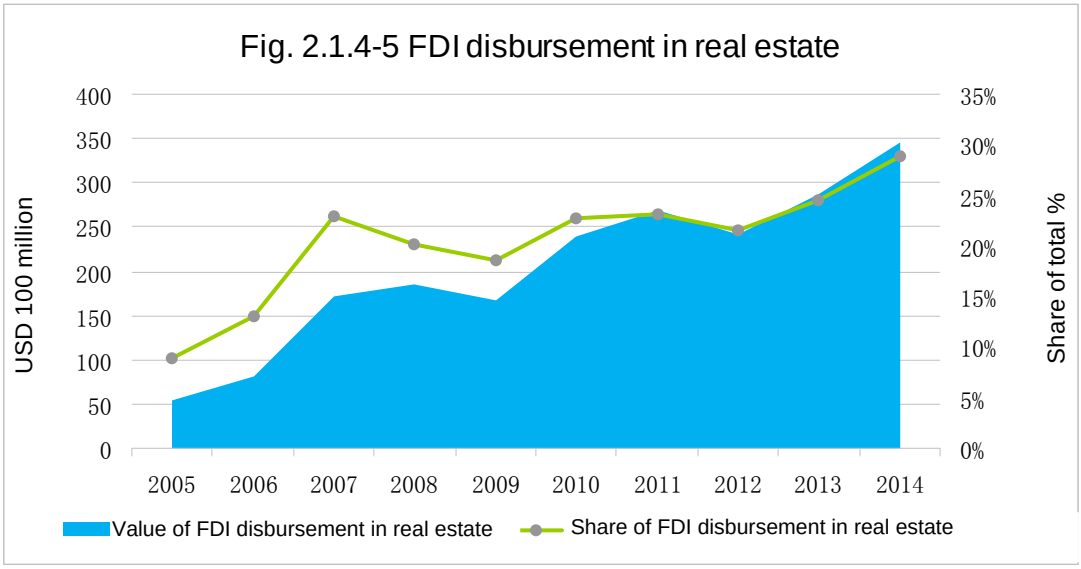
Fig. 2.1.4-4 FDI disbursement in manufacturing



Source: NBS

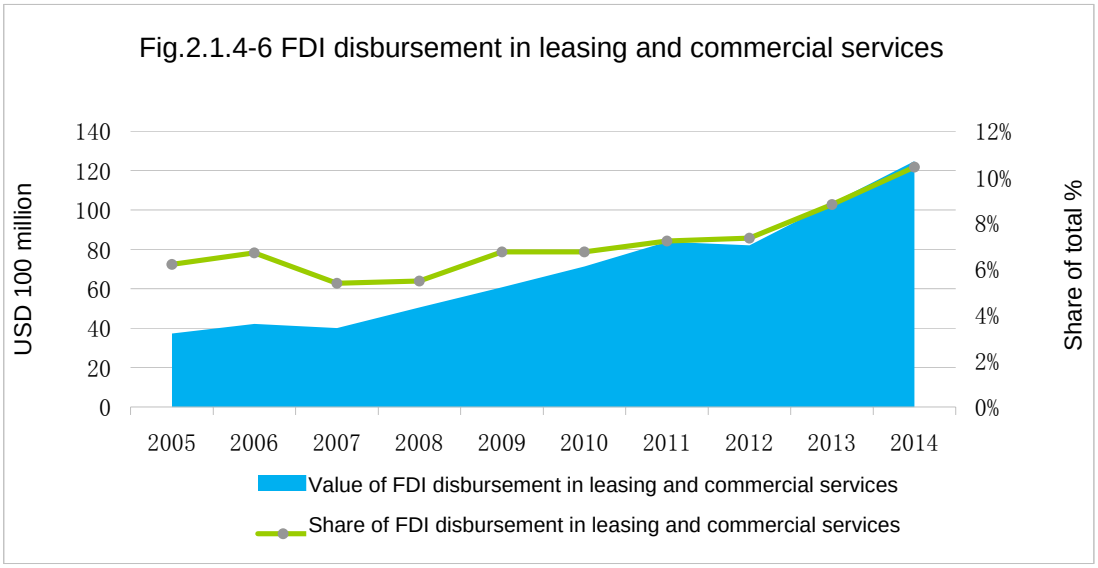
In comparison, the FDI in the tertiary industry saw rapid growth, from 24.74% in 2005 to 61.97% in 2014. Real estate was a major sector to receive FDI, next only to manufacturing among all sectors. This sector is heavily influenced by the interest rate policy of the government and attracts a lot of "hot money" from outside of China. In the wake of the 2008 financial crisis, the Chinese government made a series of adjustments to its monetary policy. As a result, FDI flowing into real estate is highly cyclical. Generally speaking, however, FDI in real estate witnessed significant expansion between 2005 and 2014, growing 22.9% annually on average, and maintained that momentum in 2014.

Fig. 2.1.4-5 FDI disbursement in real estate

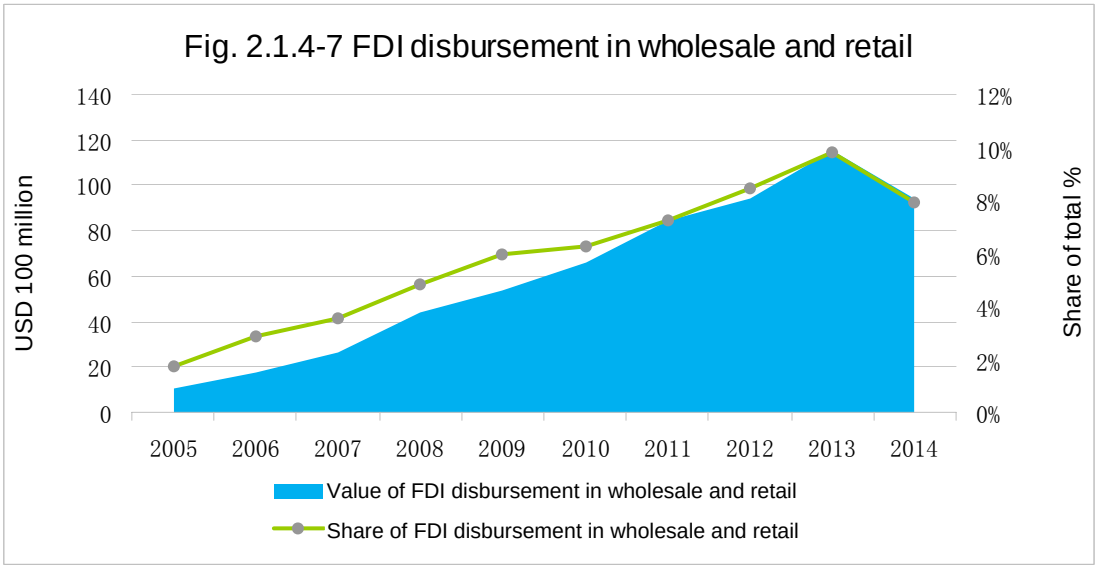


Source: NBS

In addition, leasing and business services and retail were among sectors with rapid FDI expansion in recent years. Disbursement of FDI in leasing and business services grew steadily at 14.3% on average between 2005 and 2014. Although it was lower than that of real estate, but this sector was much less cyclical than real estate in attracting FDI. As one of the service sectors that are most closely linked with other sectors, the coordinated development of domestic and foreign investment here can effectively boost the real economy. In comparison, FDI in wholesale and retail grew faster and more steadily, at 27.8% between 2005 and 2014. One of the reasons for this high growth was the small base: disbursement in 2005 was only USD 1.039 billion, or just 2% of total FDI.



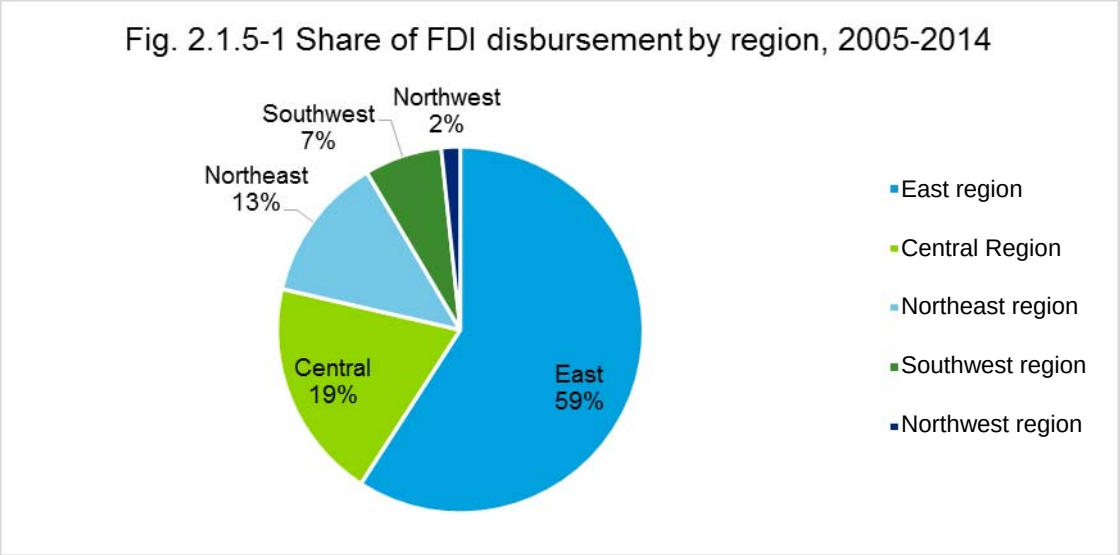
Source: NBS



Source: NBS

2.1.5 FDI by geographical location

China has attracted a large amount of FDI through years of fast growth. The geographical distribution, however, is still highly uneven.



Note: East region includes: Beijing, Tianjin, Hebei, Shandong, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong and Hainan

Central region includes: Shanxi, Inner Mongolia, Anhui, Jiangxi, Henan, Hubei and Hunan

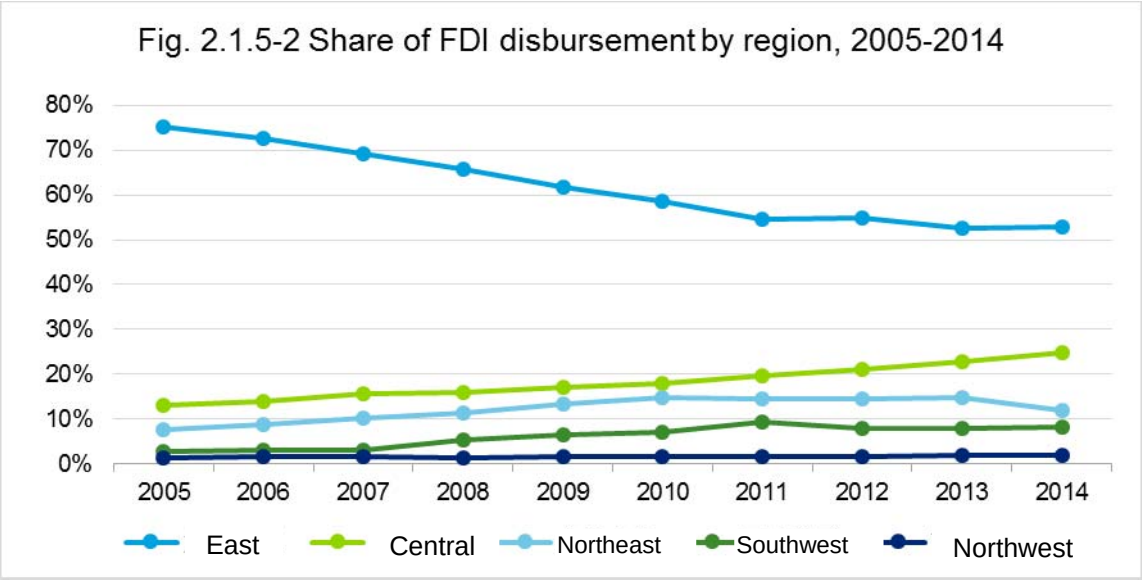
Northeast region includes: Liaoning, Jilin and Heilongjiang

Southwest region includes: Chongqing, Sichuan, Guizhou, Yunnan, Guangxi and Tibet

Northwest region includes: Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

Source: Calculated with Wind data. Final data from NBS

Data show that between 2005 and 2014, almost 80% of FDI went into the East region and Central region, two regions with relatively high population density and economic growth. Nationally speaking, the geographical distribution of FDI is constantly changing.



Source: Calculated with Wind data. Final data from NBS

The disbursement of FDI in the East region kept a growing momentum, with average annual growth of 9.6% between 2005 and 2014. Its share in total FDI, however, was consistently on the decline, from

75.2% in 2005 to 52.9% in 2014. On the other hand, the Central region's share of FDI was growing in recent years, from 13.1% in 2005 to 24.9% in 2014. The growth in FDI disbursement was also faster in Central than East, reaching 22.5% between 2005 and 2014. The Northwest, Southwest and Northeast regions all saw double digit growth in FDI disbursement between 2005 and 2014. Their share, albeit still small, was growing every year.

Even within the East and Central regions, where the economy is more developed, there is uneven distribution of FDI. The Pearl River Delta, Yangtze River Delta and Bohai Rim Economic Zones are regions with high FDI inflows.

- **The Pearl River Delta Economic Zone (PRD)**

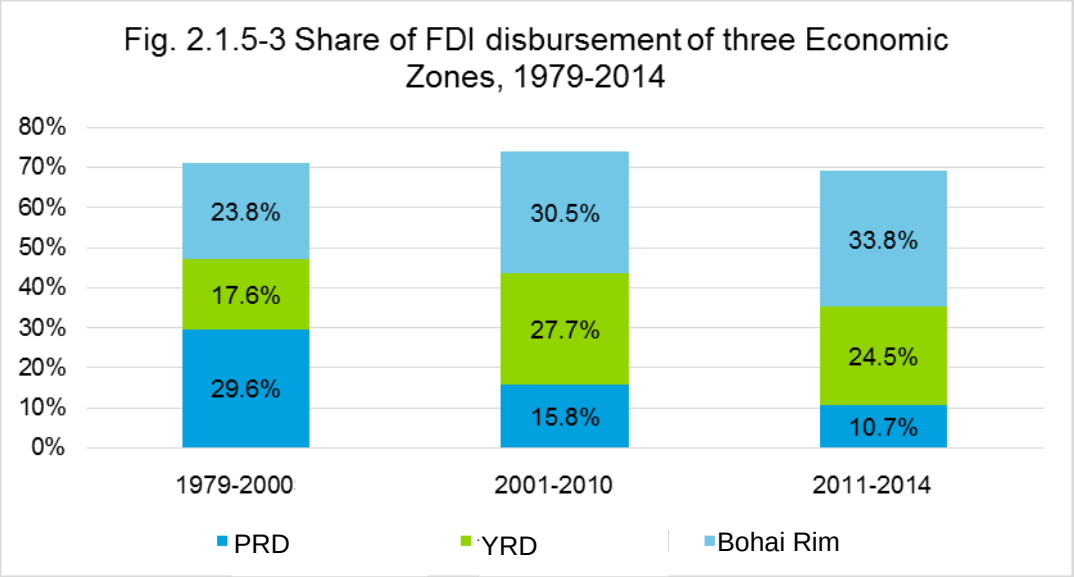
The PRD is an economic zone consisted of 9 cities in Guangdong, including Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Zhaoqing, Jiangmen, Zhongshan and Dongguan. As the earliest region opened up to foreign investment, the PRD is still of vital importance to the national economic restructuring. Doubtless to say, the province of Guangdong is the key engine for growth in the PRD and a major recipient of FDI.

- **The Yangtze River Delta Economic Zone (YRD)**

As the earliest and most mature economic zone in China, the YRD has been expanding in both geographical coverage and size of economy since opening up and reform. At present it covers Jiangsu, Zhejiang, Anhui and Shanghai, a total of 30 cities. Located at the core area of the YRD, Shanghai is the fastest growing city and one of the engines for the whole zone.

- **The Bohai Rim Economic Zone**

In the report of the 14th National Plenary of the Chinese Communist Party, the Bohai Rim area was announced to be one of the key areas for development in China. The concept of the Bohai Rim Economic Zone was officially established and plans were made. This zone is different from the YRD and PRD in that it actually consists of three economic zones, the Beijing-Tianjin-Hebei Zone, Shandong Peninsula Zone and the Liaodong Peninsula zone, covering Beijing, Tianjin, Liaoning, Shanxi, Shandong and Inner Mongolia.



Source: Calculated with Wind data. Final data from NBS

Note: For PRD, Guangdong's FDI disbursement data were used; for YRD, the FDI disbursement data of Shanghai, Jiangsu, Zhejiang and Anhui were used; for Bohai Rim, the FDI disbursement data of Beijing, Tianjin, Liaoning, Hebei, Shanxi, Shandong and Inner Mongolia were used.

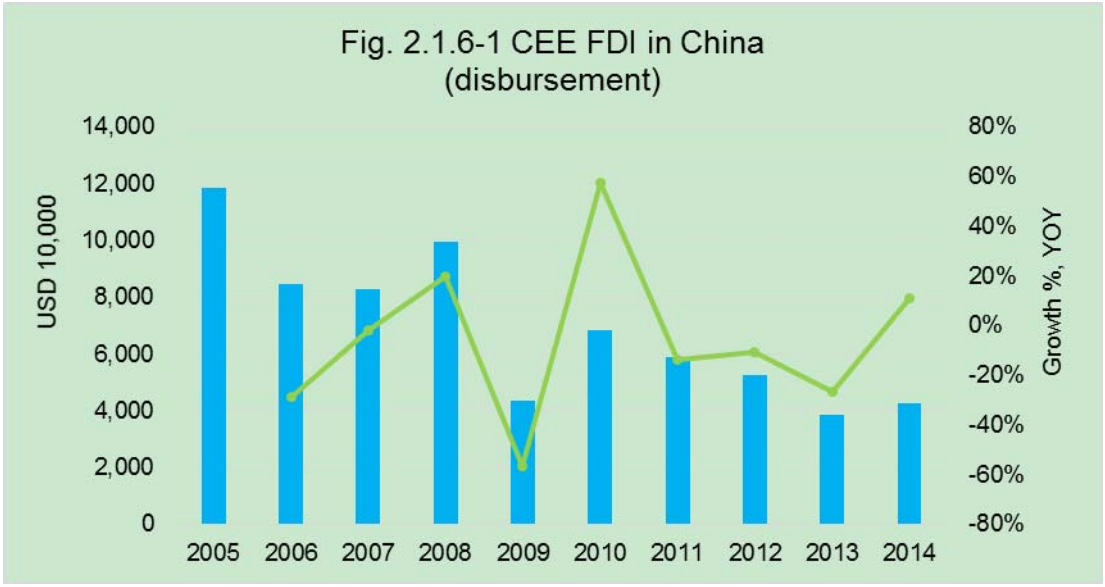
According to statistics, since China's reform and opening up (between 1979-2014), the share of FDI in these three zones witnessed the following changes:

- Before 2000, the PRD had the highest share of around 30%.The PRD was lagging behind the other two zones;
- Between 2001 and 2010, the YRD was the fastest growing zone in its share of FDI disbursement. Conversely the PRD saw a dramatic decline;
- Between 2011 and 2014, the Bohai Rim consistently ranked top among the three zones, at more than one third of total, while the share of the PRD continued to decline.

2.1.6 CEE investment and business operations in China

Since 1990, the CEE countries abandoned the dysfunctional planned economy and embraced a market-based economy. While the 2008 financial crisis caused serious damage to some CEE countries, and the market economies here are not yet mature comparing with developed nations in Europe, on the whole the CEE countries still present huge potential for growth in the post-crisis era. In particular, the CEE countries that have joined the EU are growing rapidly in recent years.

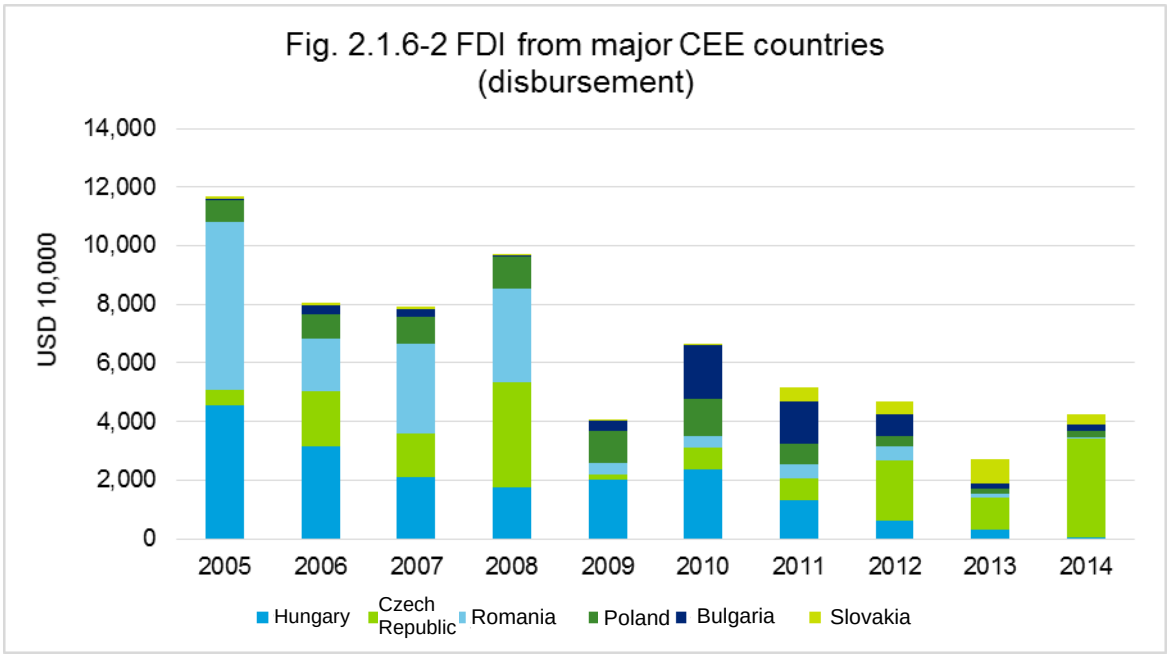
For China, FDI from CEE countries is playing an increasingly important role in this multilateral trade relationship. FDI from CEE mostly comes from Hungary, Poland, Romania,the Czech Republic, Slovakia and Bulgaria, which accounts for about 90% of total FDI from 16 CEE countries.



(Note: Data collected for countries including Hungary, Czech Republic, Romania, Poland, Bulgaria, Slovakia, Slovenia, Armenia, Croatia, Lithuania, Latvia and Estonia)

Source: NBS

Whether taken as a whole or individually, FDI from these 16 CEE countries were quite volatile. Between 1997 and 2013, most CEE countries saw fast growth of FDI to China in 2004 and 2005, with Hungary, Romania and Poland leading the pack. Subsequently in 2009, FDI inflows dropped significantly due to the financial crisis. As of 2013, total FDI from CEE to China still seemed to be at a low level.



Take Czech Republic as an example. In 2008, FDI from Czech was the largest among 16 CEE countries, reaching its own historical high to about USD 35.79 million. In 2009, however, it plunged to only 1.61 million, declining by 95.5%. From then on it gradually grew back amidst ups and downs.

Between 2012 and 2014, when FDI from most CEE countries were shrinking, FDI from Czech remained at the top, reaching 33.71 million in 2014.

The rapid growth of bilateral trade and investment between China and the Czech Republic are the results of joint efforts from the governments and businesses of the two countries. More importantly, the Czech Republic is located along the routes of the Belt and Road Initiative and plays a pivotal role in the Maritime Silk Road. To build stronger ties, the China Investment Forum was created in Prague. During the China-Czech Prime Minister meeting in 2013, Premier Li Keqiang spoke highly of this forum. In 2014 and 2015 the Forum continued to play an important role in facilitating high-level exchanges between China and the Czech Republic in particular, and China and CEE in general.

Historically, FDI from Romania to China once accounted for 48% of CEE total, reaching USD 57.1 million in 2005. In 2005, however, it was only 3.85 million, down by 88% over 2008. Since then the number kept declining and, as of 2014, accounted for less than 5% of CEE total.

In contrast, FDI from Hungary and Poland experienced smaller fluctuations. Disbursement of FDI from Hungary reached its peak in 2004, close to USD 50 million, before embarking on a downward path. In partially came back after 2008, but went down again since 2010. In 2014, disbursement only stood at 2.19 million. Disbursement from Poland was not affected much by the crisis. In 2009 it was only less than 300,000 lower than that of 2008 and came back quickly in 2010 to 12.43 million. Similar to the case of Hungary, FDI disbursement from Poland went south since 2010. While growing by 41.3% in 2014, it was still at a very low level (2.19 million).

2.1.6.1 Target industries of CEE investment

China is the largest trading partner for most CEE countries. The rapid growth in trade in recent years has spurred investment from CEE countries, while the Belt and Road Initiative serves as a further boost to economic exchanges. As of the end of 2014, CEE investment in China exceeded USD 12 billion. The Belgrade Guidelines for Cooperation between China and CEE Countries expanded this relationship into more areas and industries.

According to MOFCOM, Poland saw the fastest growth in its investment in China in the first half of 2015, growing 3621.9% YOY. This was achieved through frequent exchanges between governments and businesses of the two countries. In the food and beverage industry, the largest public company in CEE, headquartered in Poland, has entered China and opened its first store in Shanghai. In manufacturing and new energy, Poland companies have also signed partnership agreements with Chinese counterparts. Poland companies will gain access to the vast market and strong demand in the Chinese market, while Chinese companies can benefit in terms of know how and funding.

Investment from the Czech Republic is also growing healthily. At the China Investment Forum, held in Prague in 2015, business representatives from both countries expressed the wish to expand the scope of investment cooperation between them. The two countries have collaborations in many industries, with a strong focus on financial services, mechanical manufacturing, energy and electronics. In as early as 2004, PPF, the largest investment group in CEE, set up its representative office in Beijing, and brought with it world-class know how in consumer finance. In 2010, PPF gained

approval from China Securities Regulatory Commission (CSRC) to set up Home Credit. It witnessed the ever-growing ties between China and the Czech Republic over the past decade. As one key member of both the EU and CEE, the Czech Republic is home to a vibrant and innovative financial services sector. As China continues to spearhead its reform and urbanization, its middle class will grow quickly, and sectors such as consumer finance will serve as a great opportunity for CEE countries, including the Czech Republic, to collaborate with China.

- **Main industries that receive FDI**

Country	Industry
Poland	Parts and components manufacturing, machinery manufacturing, jewellery, new energy, tourism and food and beverage
The Czech Republic	Communications technology, biotech, aviation, new energy, machinery and equipment manufacturing, credit and loan, forestry and waste water treatment
Hungary	Waste water treatment, water resource management, construction materials, agriculture, energy-saving and environmental protection
Slovakia	Parts and components manufacturing
Bulgaria	Food processing
Romania	Agriculture

The food and beverage (F&B) and food processing are preferred industries for CEE countries. On the one hand, CEE products has good value for money, as countries here adopt stringent EU standards while enjoying lower labor cost. On the other hand, China has a large consumer market, but is still prone to food safety issues due to lack of sophistication in its industries. As a result, the F&B and food processing industries has become key areas for China-CEE collaboration.

In 2012, AmRest Holdings SE, the largest public F&B group in CEE, opened its first restaurant in Shanghai, marking its official entrance into the Chinese market. Headquartered in Poland, it is the largest independent restaurant group in CEE, with franchise rights of leading brands such as KFC, Pizza Hut and Starbucks. It acquired La Tagliatella, a renowned Italian brand. AmRest Holdings SE announced in its 2012 strategy that it will enter China, the US, Germany and India. China was the first stop for the expansion of its La Tagliatella brand.

CEE countries are also bringing latest technologies and products to the food processing industry. In 2013, DEO Perfume Candy from Bulgaria chose Yiwu, Zhejiang Province to set up its factory. It would produce its signature rose-oil candy for Chinese consumers. Due to the advantage in labor cost and incentives offered by local governments, many foreign food processing companies have successfully started their operations in China via direct investment.

In manufacturing, in 1994 Skoda a.s. and Guangzhou Jinma Group co-invested in Guangzhou SKODA-JINMA Turbine Ltd. Co., with a registered capital of USD 7.2 Million (Czech partner has 75% stake and Chinese partner 25%) and annual revenue of CNY 30 million.

In 2014, the Boryszew Group, a Polish supplier of pipes for air conditioners for all VW automobile brands, came to Dalian Bonded Zone with a EUR 30 million investment project. It also planned to relocate its Asian manufacturing base of auto parts to Dalian. In the same year, KINEX from Slovakia also set up its subsidiary in Beijing. As a leading producer of specialized bearings for the textile industry and locomotives, the company planned to expand into the Chinese market.

In the traditional agriculture sector, China's reservoir of natural resources and geological diversity has attracted the attention of many CEE companies. In 2013, the government of Hengshan County, Hengshan City, Hunan Province signed an agreement with Huaxia Xiangjiang Co., Ltd, under Sigaole Group from Hungary, to set up the Huaxia Xiangjiang International Agriculture Demonstration Park, a large-scale project combining modern agriculture, urban-rural connectivity, eco-tourism and old-age care. With a total investment of CNY 3.3 billion, this 10-year project aimed to establish a world-class agriculture park to contribute to local agriculture and tourism.

The CEE-China collaboration also covers the high-tech industry. In 2014, Sotio, a biotech company from the Czech Republic and a world leader in immunotherapy, set up its laboratory in Beijing to develop cancer therapies for Chinese patients. The Czech Ministry of Health fully supported such collaboration in the healthcare industry and hoped that the success of Sotio could serve as a role model.

Today, CEE countries have made investments in a dozen industries in China, including construction, agriculture, transportation, hospitality, F&B, real estate and energy. Both China and CEE are emerging markets, with highly complementary economies. CEE investment in China takes many forms, including direct investment to set up plant, wholly-owned subsidiaries, joint ventures and acquisitions, with joint venture being the most popular option.

"There is great potential in our collaboration. Under the Belt and Road Initiative, we stand ready to share our technology and experience with our Chinese partners. Chinese entrepreneurs are encouraged to capture these new opportunities in Central and Eastern Europe."

Andrzej Dycha, State Undersecretary of Economy, Poland

China-CEEC Forum on Cooperation and Development,

Ningbo China, June 6, 2015

II Government Policies and Services

2.2.1 Market access for foreign investment

2.2.1.1 Law on three types of foreign-funded enterprises

- **General procedures**

According to the current regulations, foreign investment projects are subject to pre-approval and case-by-case approval, regardless of the industry and size of investment, with the only exception of the four pilot free trade zones in Shanghai, Guangdong, Fujian and Tianjin. Foreign-funded enterprises must obtain approval from MOFCOM before establishment and subsequent changes of material importance will also need to be pre-approved by MOFCOM. At the local level, express approval channels have been created in many regions for changes of lower significance, such as a change to the articles of association.

At present, depending on the nature of the foreign-funded enterprise, different laws may apply, mainly the Law on Chinese-Foreign Equity Joint Ventures, Law on Foreign-Capital Enterprises and Law on Chinese-Foreign Cooperative Joint Ventures, and their rules for implementation and by-laws. These laws and regulations are formed in the opening up and reform process of China and have the features of incremental changes.

- **Classification of foreign-funded enterprises**

Foreign-funded enterprises are an umbrella concept that covers all types of enterprises that have foreign funding. According to the share of foreign capital in the registered capital and asset, as well as other legal features, foreign-funded enterprises can be divided into three types:

Chinese-Foreign Equity Joint Ventures

Main legal features: statutory requirements on the share of foreign capital in registered capital; limited liability. The Law on Chinese-Foreign Equity Joint Ventures is applicable.

Chinese-Foreign Cooperative Joint Ventures

Main legal features: No mandatory requirement of the share of foreign capital in registered capital. Enjoys flexibility in organization, profit distribution and risk takings. Also called contractual joint ventures. The Law on Chinese-Foreign Cooperative Joint Ventures is applicable.

Foreign-Capital Enterprises

Main legal features: All capital owned by foreign investor. The Law on Foreign-Capital Enterprises is applicable.

2.2.1.2 Consolidation of the three laws: The draft Foreign Investment Law (FIL)

In order to advance institutional reform, further open up and promote foreign investment, on Jan 19, 2005, the MOFCOM released the Draft Foreign Investment Law to solicit comments. The Draft Law contained 11 chapters and 170 clauses, covering the definition of foreign investor and foreign investment, market access, national security review, reporting, investment promotion, investment protection, complaint handling, supervision of foreign investment authorities (commerce departments), and legal liabilities. The solicitation of public comments is now completed and it is expected that in the near future, this law will replace the three laws on foreign-funded enterprises to consolidate management of foreign investment. Foreign investors will also be able to enjoy more convenience from the new law.

- **Consolidation of laws**

After the FIL comes into effect, one law will be applicable for all three types of enterprises. Such companies or cooperative joint ventures will be given national treatment and subject to laws and regulations such as the Company Law and the Law on Partnerships.

Additionally, the FIL will also cover some outstanding issues, such as the VIE structure.

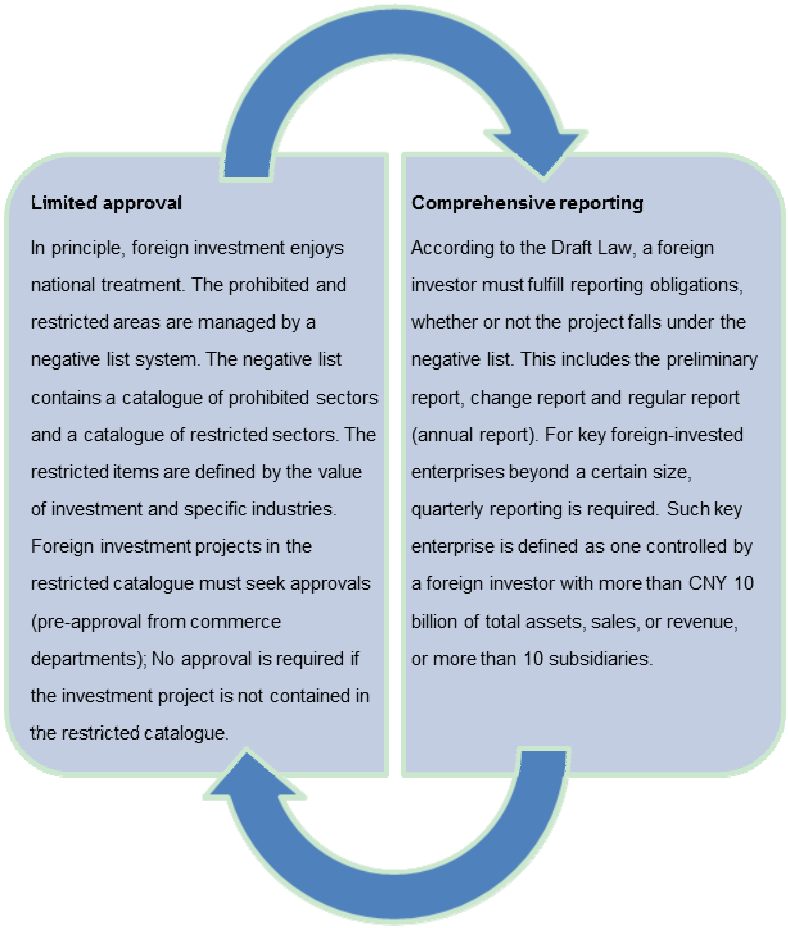
- **Approval requirement: from case-by-case to limited approval plus comprehensive reporting**

The “limited approval plus comprehensive reporting” can be seen as an expanded version of the negative list used in the Shanghai Pilot Free Trade Zone.

In the draft, foreign-funded enterprises are required to produce the following reports:

Report	Time	Content
Preliminary report	Before the investment or within 30 days of the investment	Basic information of the foreign investor, the investment and the invested enterprise
Change report	Within 30 days of the change	Change of the foreign investor, the investment and the invested enterprise, and the transfer, contribution or guarantee of equity
Annual report	Annual report for the previous year on April 30	Basic information of the foreign investor, the investment and the invested enterprise; operations; accounting; related transactions; litigation and administrative penalties of material importance

China will keep updating its laws governing foreign investment to create a stable, transparent and predictable legal environment. While being protected by laws and regulations, foreign-funded enterprises should also be law-abiding citizens and should pay particular attention not to harm China's national security and public interests.



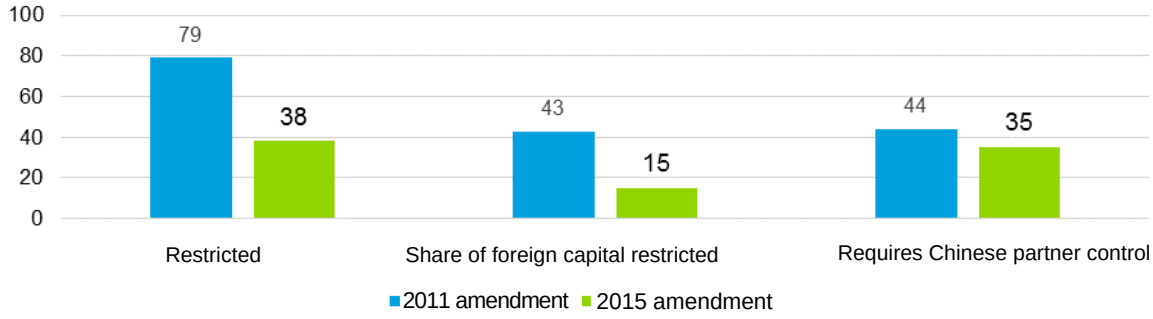
2.2.2 Industrial and regional policies

2.2.2.1 An opening policy environment: investment catalogue

The 3rd Plenary Session of the 18th CPC Central Committee set the target of constructing an open economy and liberalizing market access for foreign investment to facilitate efficient flow and allocation of resources. Against this backdrop, the National Development and Reform Commission (NDRC) and MofComm published the amended Catalogue for the Guidance of Foreign Investment Industries in 2015 to supersede the 2011 version. The amended Catalogue kept the classification of the previous version and outlined the encouraged, restricted and prohibited industries for foreign investment. Industries not covered by the Catalogue were deemed as open to foreign investment.

- **Further liberalization with continued market reform**

Fig. 2.2.2-1 Loosening of the Catalogue for the Guidance of Foreign Investment Industries (number of items)

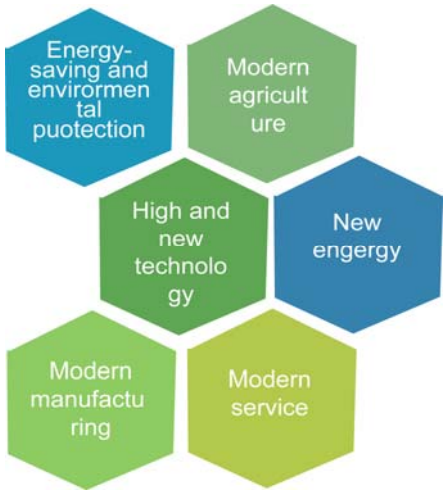


Source: NDRC

Since its promulgation, the Catalogue was amended several times as required by economic development and opening up. The 6th amendment in 2015 was the most significant one in that first, the number of restricted items was sharply reduced, from 79 in the 2011 version to 38; second, the restriction on share of foreign capital was further liberalized, the "equity joint venture" and "cooperative joint venture" items were reduced from 43 in the 2011 version to 15, while "Chinese partner with controlling stake" items were reduced from 44 to 35.

In terms of industries, share restrictions were lifted in such manufacturing industries as steel, ethylene, oil refinery, paper-making, lifting equipment, cabin equipment, power transmission equipment, coal chemical equipment, light helicopter, auto electronics and premium baiju. Non-ferrous metallurgy, small engineering machinery, conventional bearing, photosensitive materials and chloromycetin were no longer in the restricted catalogue. In the service sector, share restrictions were lifted in such industries as e-commerce, chain retailing, feeder railway, metro, light rail, ocean transportation and performance art centers. Direct sales, mail ordering, inspection and certification of imports and exports, rail freight, insurance brokerage, finance companies, trust companies and currency brokerage were no longer in the restricted catalogue. These changes reflected China's wish to transform the way it managed foreign investment and let the market play a decisive role in resource allocation.

- **Benefiting from preferential policies**



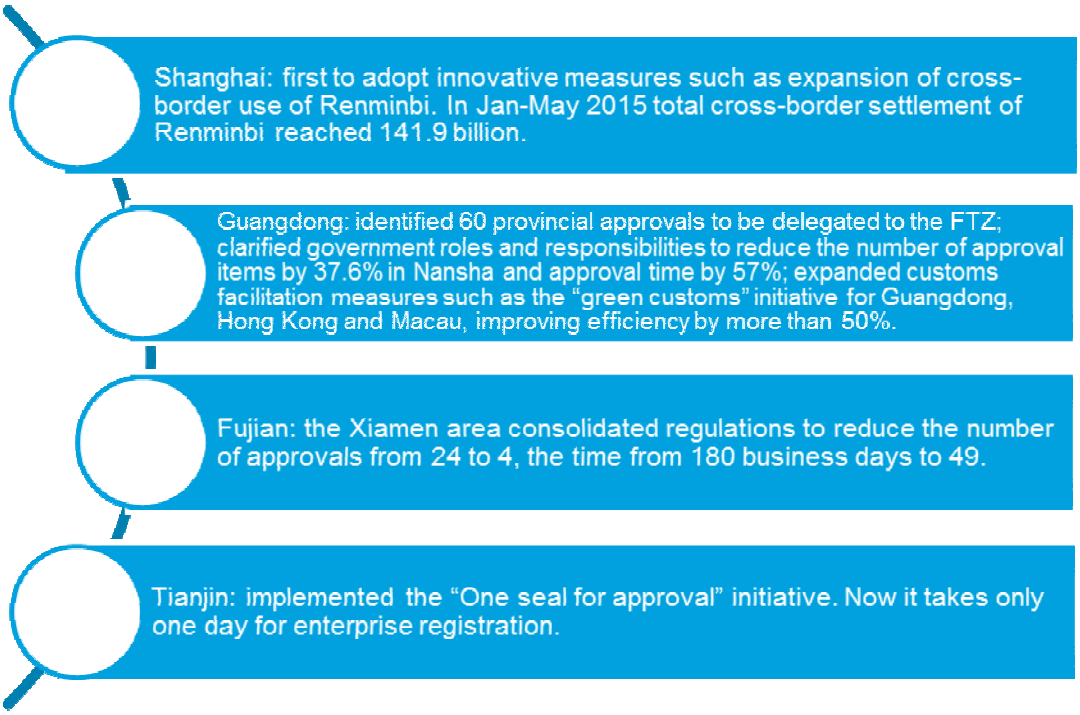
China is in the process of economic and industrial transformation. Foreign investors should take advantage of this mega trend to gain a competitive edge in the Chinese market. The Catalogue aims to encourage foreign investors in such industries as modern agriculture, high-tech, modern manufacturing, energy-saving and environmental protection, new energy and modern service. Foreign investors are also

encouraged to invest in transfer of high-end industries and research and development. The encouraged items in the Catalogue are eligible for multiple incentives in taxation and other areas (for example, foreign investors who invest in large scale projects with long payback periods, such as energy, transportation and urban infrastructure, can expand their scope of business after approval).

2.2.2.2 Pilot free trade zones

- **Four pilot free trade zones**

The pilot free trade zones (FTZs) aim to further liberalize the service sector, carry out reforms in investment management, facilitate changes in trade patterns, open up the financial services sector, and experiment with innovative regulatory models. They will serve as role models for the whole countries in creating an administrative system suited to the international investment and trade practice and an international business environment based on rule of law. The FTZs are pioneers of China's reform and opening up.



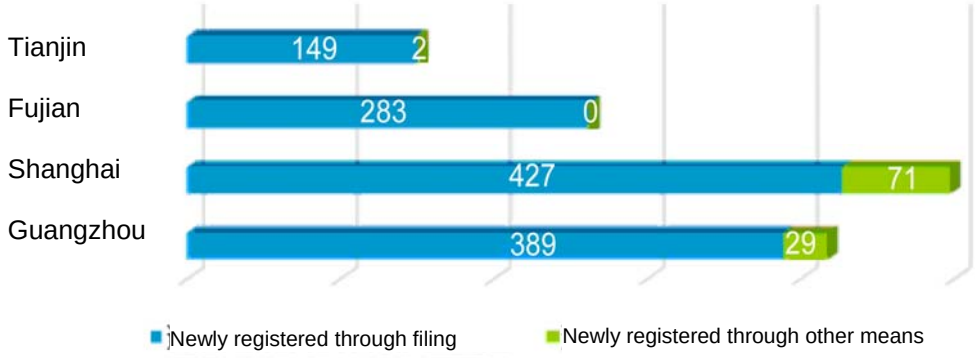
Currently there are four FTZs: Shanghai, Guangdong, Fujian and Tianjin, each with its unique set of policies and services[4].

- **From pre-approval to filing**

[4] Central government website: MofComm talks about four FTZs: innovation and spill over effect, http://www.gov.cn/zhengce/2015-07/27/content_2902856.htm，Sep 1, 2015 .

While the FIL has not yet come into force, China is already piloting policy liberalization in the FTZs. The State Council has published the Special Administrative Measures for Access of Foreign Investment to China (Shanghai) Pilot Free Trade Zone (Negative List), applicable to all four FTZs, in which the number of items is reduced from 139 in the 2014 Shanghai FTZ's negative list to 122, further improving the openness and transparency of the FTZs. MofComm published Administrative Measures on Filing of Foreign Investments in the Pilot Free Trade Zones (Trial Implementation), providing further convenience in the filing system and improving the system of ongoing and ex post supervision. All four FTZs, having established negative lists, are seeing healthy inflows of foreign investment and orderly filings.

Number of filings in FTZs (two months since implementation)



Source: MOFCOM

2.2.2.3 Opening up of the Central and West regions

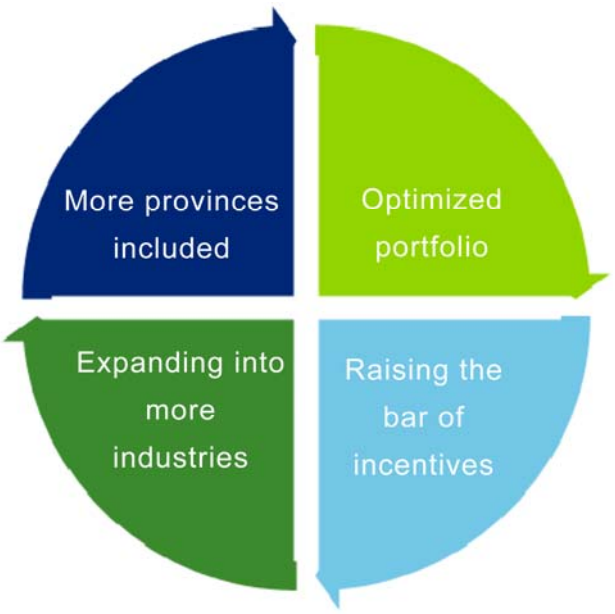
In recent years, with the implantation of a serious of national strategies, including the development of the Western regions, emergence of the Central regions and the reinvigoration of the old Northeast industrial base, the Central and West regions are drawing ever more attention as they open up. The Catalogue of Priority Industries for Foreign Investment in Central and Western China, in alignment with the Catalogue for the Guidance of Foreign Investment Industries, aims to help the Central and West regions to attract foreign investment of both higher volume and quality, and to optimize the industry mix and respond to the global financial crisis. It is more fine-tuned to cater for local conditions.

- **Adjustments in incentives**

The 18th National Congress of the CPC put in place a strategy to encourage further opening up with innovation; facilitate a coordinated effort among costal, inland and border regions; and create engines of opening up that can drive regional development. According to this strategy, the 2013 amendment made changes to the 2011 version.

- **Expanding into more industries**

The Catalogue of Priority Industries for Foreign Investment in Central and Western China (2013) contained 500 items, 173 more than the older version. In the agricultures and mining industries, specific processing industries focusing on crops and minerals in this region were added; in manufacturing, key industries with significant spill over effects to the regional economy were added; automobile manufacturing, no longer encouraged in the 2011 version, was reinstated as an encouraged industry to support this region.



- **Optimized portfolio**

In addition to traditional manufacturing, the Catalogue also included service-related items, such as “the development and application of new generation information technology such as cloud computing, internet of things and mobile internet” in Shanxi, “creation, production and merchandise development of animation and cartoon” in Heilongjiang and “wholesale and retail of general commodities” in Shaanxi.

- **Raising the bar of incentives**

The bar of incentives for some manufacturing industries was raised, with detail specifications, to encourage the development of high and new industries and modern manufacturing.

- **More provinces included**

In the revised version, encouraged items were listed in 22 provinces (regions and municipalities). For example, certain items specific to Hainan were included as encouraged items.

Foreign investment projects that fall under this Catalogue can enjoy preferential policies outlined in the Catalogue for the Guidance of Foreign Investment Industries. Foreign investment projects that work in progress and meet requirements in this Catalogue can enjoy preferential policies outlines in this Catalogue. In addition, companies in the encouraged industries in the western regions will enjoy a 15% reduction in their corporate income tax (CIT); corporate income from key infrastructure, environmental conservation, energy-saving and water-saving projects are eligible for “3-year waiver and 3-year 50% reduction in CIT”; resource tax of coal, crude oil and natural gas was changed from volume-based to price-based, while the tax rate of other resources were adjusted to increase local fiscal revenue. In the distribution of resource tax income, local governments should give more bias towards lower governments where the resources were produced. For equipment of self-use, imported

within the investment quota for the encouraged industries of domestic investment, encouraged industries of foreign investment and priority industries, customs duties can be waivered.[5]

2.2.2.4 Summary: opportunities amidst transformation

Three trends are clear from a policy perspective: more openness, higher standards, and a balanced approach between playing to regional strength and bridging regional gaps. First, more openness means larger markets and more opportunities, as the policy environment is gradually liberalized for easier access and streamlined administrative procedures. Second, with China's economic transformation, the government wants to encourage investment projects with higher quality, in areas such as high-end manufacturing and modern service sector, while discouraging projects that are wasteful and unsustainable. Lastly, given China's vast territory, there are bound to be regional differences. Current policies have taken this into consideration to facilitate balanced development. On the one hand, each region is encouraged to play to its own strength. On the other hand, underdeveloped regions in the west are given huge support. By following the trend and seizing opportunities in this transformation, companies stand a good chance to capitalize on this vast market and gain a competitive edge.

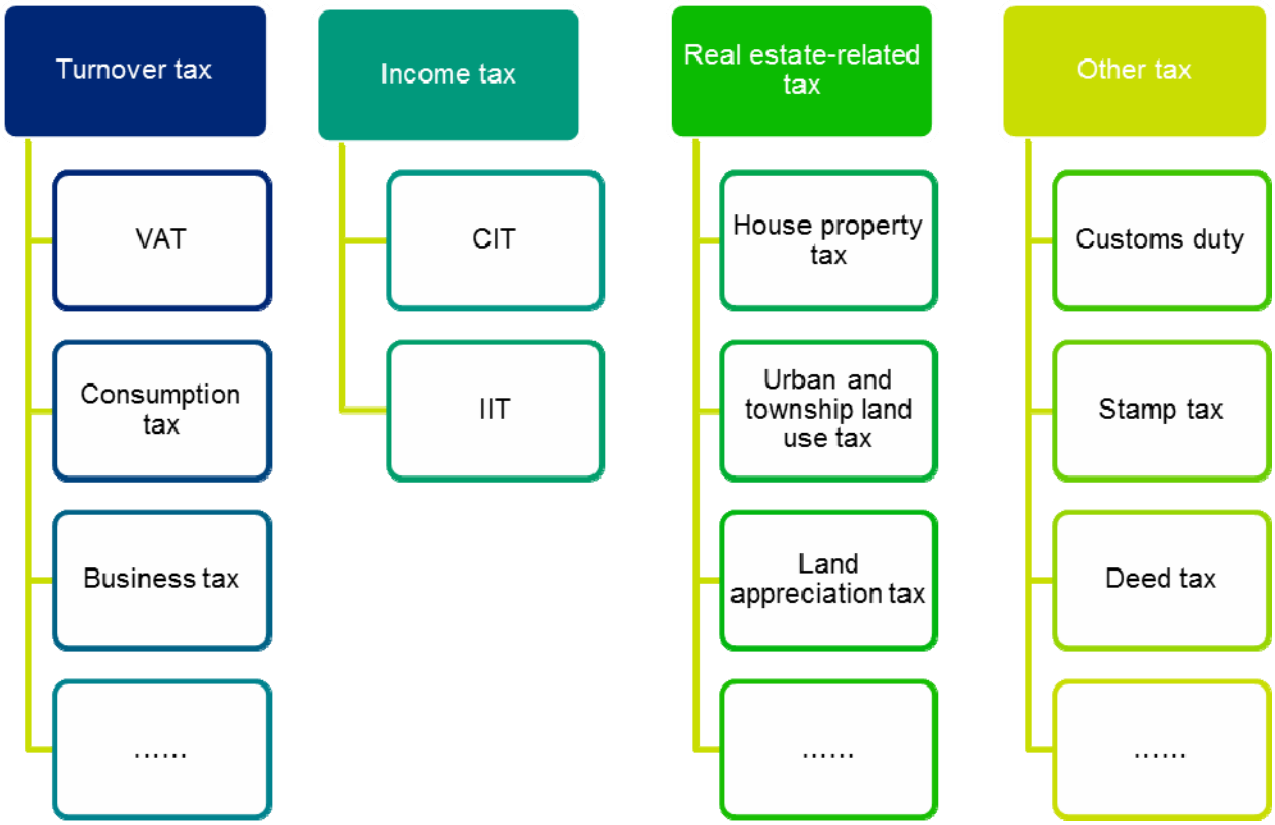
[5]CPC Central Committee and State Council Opinions on Further Implementing the Development Strategy of the Western Regions

2.2.3 China's tax regime

This section mainly touches up on tax regulations concerning foreign investment in China (Mainland China in particular) and is not intended to be all inclusive. In practice, laws and regulations are subject to change and may be interpreted differently by local tax authorities. Companies are recommended to consult with professional service providers before choosing to take or not take certain actions.

2.2.3.1 Overview

China has a wide range of taxes, which can be broadly categorized into turnover tax (including value-added tax (VAT), consumption tax and business tax), income tax (including corporate income tax (CIT) and individual income tax (IIT)), real estate-related tax (including house property tax, urban and township land use tax and land appreciation tax) and other taxes (including customs duty, stamp tax and deed tax).



2.2.3.2 Administration of tax collection

In China, the tax legislation is endorsed by the NPC after deliberation while and implementation rules are promulgated by the State Council. The Ministry of Finance (MOF) and the State Administration of Taxation (SAT) are authorized to interpret the tax law and execute the implementation rules. SAT is also in charge of oversight of tax collection by local tax authorities.

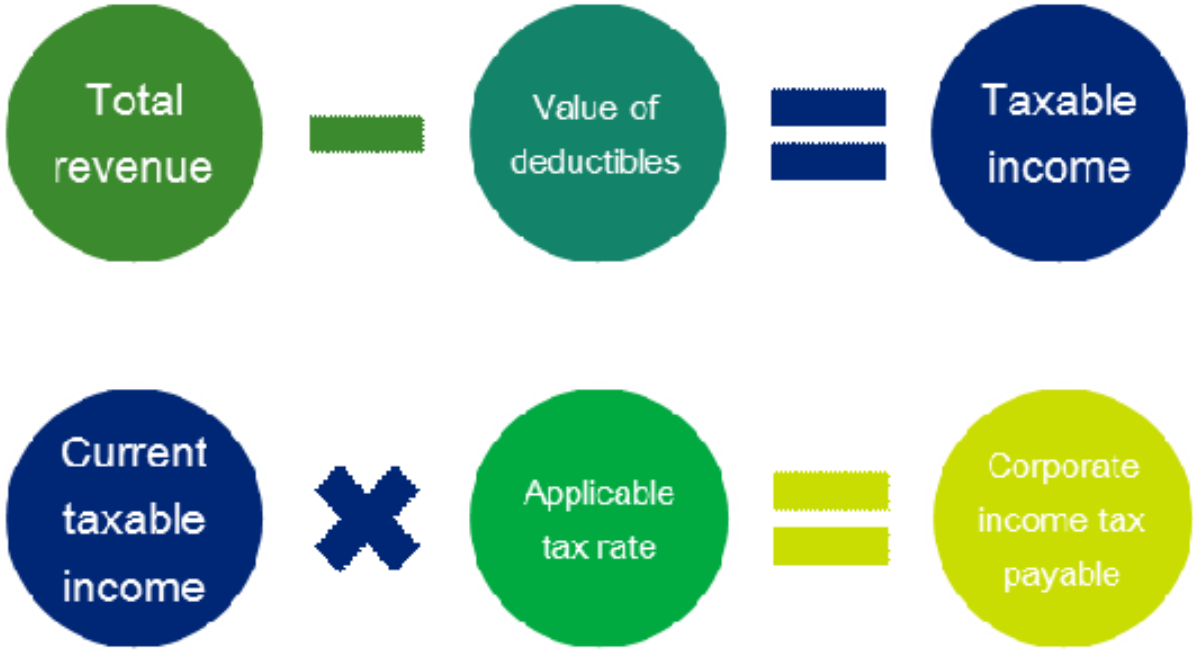
- **Law on Administration of Tax Collection**

The current Law on Administration of Tax Collection is based on the 2002 version with several revisions, the latest one being in 2015, when the 14th Session of the Standing Committee of the 12th NPC endorsed the amendment of this law. The main change was that taxpayers would be able to file for tax reduction and exemption directly according to laws and administrative regulations, without making applications to tax authorities and obtaining approvals.

- **Tax collection systems**

China adopts a tax-sharing system and the tax revenue is managed under two categories, i.e. central tax and local tax (also sharing tax under some circumstances), collected by the State Tax Bureau and local tax bureaus respectively.

The State Tax Bureau collects: VAT; consumption tax; business tax, income tax and city maintenance and construction tax paid by railway, head offices of banks and headquarters of insurance companies; income tax paid by central state-owned enterprises (SOEs); income tax paid by joint-operations or joint-stock enterprises established by enterprises and public institutions under central or local governments; income tax paid by local and foreign-funded banks and non-bank financial institutions; corporate income tax paid by enterprises registered with all levels of Administration of Industry and Commerce (AIC) since Jan 1, 2002; income tax and resource tax paid by offshore oil companies; individual income tax levied on interest income from bank deposits; stamp tax on securities



transactions; vehicle purchase tax; fine for delaying payment, supplementary payment or penalty for export rebate; education surcharges levied under central tax or sharing tax (those paid by railway, head offices of banks and headquarters of insurance companies go into the central treasury, the others into local treasury).

Business tax, individual income tax and corporate income tax paid by domestic enterprises registered with all levels of Administration of Industry and Commerce (AIC) until January 1, 2002 are collected by local tax bureaus.

2.2.3.3 Corporate income tax

- **Overview**

CIT is levied on the income of taxpayers, including income from selling goods, providing labor services, transferring assets, dividends, interests, rentals, royalties, donations and other activities.

Resident enterprises (enterprises incorporated in China pursuing Chinese laws and regulations, or enterprises whose actual management organization is located in China) shall pay CIT on their income generated inside and outside China. Non-resident enterprises, having set up organizations in China, shall pay CIT on the income generated inside China by such organizations, and income generated outside China that has de facto connection with such organizations. Sole proprietorships and partnerships are not subject to CIT, but IIT, to avoid double taxation.

In the new Law on CIT, the statutory tax rate is 25% for both domestic and foreign enterprises. It is 15% for high-tech enterprises that are key focus for government support, 20% for small low-profit enterprises and 10% for the withholding tax rate on passive income of non-resident enterprises.

- **CIT returns and payment**

In China, the tax year follows the calendar year.

Unless otherwise ruled by the State Council, a resident group of companies is not allowed to consolidate tax returns for CIT. As of today, the State Council has not yet released any regulations permitting such practice. A non-resident enterprise with two or more organizations in China can choose to pay all its taxes in a consolidated manner in the location of its main organization, provided that it receives clearance from the tax authorities and meet the following requirements: this main organization exercise oversight on the rest of organizations; it keeps a complete set of accounting records and vouchers to accurately reflect the revenues, costs, expenditures and profit and loss of all the organizations. Annual CIT returns should be filed by May 31st of the next calendar year (while some local authorities may request earlier filing) CIT should be pre-paid within 15 days after the end of the month or quarter, and the tax authority in charge shall decide whether it is monthly or quarterly payment.

- **Tax incentives**

According to the tax law, some encouraged projects and industries are eligible for tax breaks. Below is a partial list:

Projects and industries	Tax incentives	Duration
Agriculture, forestry, animal husbandry and fishery projects	Exempted or 50% reduction	Duration of the project
Non-for-profit activities of non-for-profit organizations	Exempted	Duration of such activities
Public infrastructure projects	3+3 tax break	Six years since the tax year in which the first stream of revenue was generated from such project
Environmental protection and energy- and water-saving projects	3+3 tax break	Six years since the tax year in which the first stream of revenue was generated from such project
High-tech enterprises incorporated and certified after Jan 1, 2008 in Shenzhen, Zhuhai, Shantou, Xiamen, Hainan and Shanghai Pudong	2+3 tax break	Five years since the tax year in which the first stream of revenue was generated from such project
Software enterprises	2+3 tax break	Five years since the first year with profit
IC design enterprises	2+3 tax break	Five years since the first year with profit
Eligible energy-saving services companies	3+3 tax break	Six years since the tax year in which the first stream of revenue was generated from such project
Encouraged enterprises in under development regions in Xinjiang	2+3 tax break	Five years since the tax year in which the first stream of revenue was generated from such project
Projects under the Clean Development Mechanism	3+3 tax break	Six years since the tax year in which the first stream of revenue was generated from such project
Note: **1. "a+b break" refers to a years of exemption and b years of 50% reduction of CIT.** **2.For a complete list of projects, please refer to relevant laws and regulations, such as the Regulation on the Implementation of the Enterprise Income Tax Law**		

In addition, specific enterprises enjoy lower CIT rate. For example, certain qualified high-tech enterprises enjoy a 15% reduction; in some economic zones, enterprises in the local catalogue of preferred industries also enjoy reductions defined by those zones.

In practice, relevant laws and regulation carry specific rules on write-downs, deductions and credits. Enterprises can refer to these articles as appropriate.

- **Withholding tax (for non-resident enterprises)**

The withholding tax is short for source-based withholding of income tax. For the profit (dividend and bonus), interest income, rentals, income from asset transfers, royalties and other incomes generated in China by foreign enterprises who have no organization in China, or whose organizations in China do not have de facto connection with the income, a withholding tax shall be levied on the full amount

of the income (unless stimulated otherwise by regulations or treaties). The payer of the income shall be the withholding agent when making payment for the beneficiary. The withholding tax rate is 10%, but may be lower than 10% or even exempted according to relevant tax treaties.

2.2.3.4 Individual income tax

- **Taxpayers**

Taxpayers of IIT are people residing in China and receiving income, and people not residing in China but receiving China-sourced income. This includes citizens of Mainland China, expats and Hong Kong, Macau and Taiwan citizens receiving China-sourced income.

- **Resident taxpayer**

A resident taxpayer is any individual who has domicile in China, or who has no domicile but has resided for a minimum of 1 year in China. A resident taxpayer has unlimited tax obligations and shall pay IIT on both China-sourced and non-China-sourced income.

- **Non-resident taxpayer**

A non-resident taxpayer is any individual who has no domicile in China and has resided for no more than 1 year in China. A non-resident taxpayer has limited tax obligations and shall pay IIT only on China-sourced income.

IIT obligations for expats

Length of stay in China	Job level	China-sourced income, borne by China entity	China-sourced income, borne by overseas entity	Overseas-sourced income, borne by China entity	Overseas-sourced income, borne by overseas entity
No more than 90 days or 183 days	general	Y	N	N	N
	executives	Y	N	Y	N
More than 90 days or 183 days	general	Y	Y	N	N
	executives	Y	Y	Y	N
More than 1 year up to 5 years	all	Y	Y	Y	N
More than 5years	all	Y	Y	Y	Y
Executives include General Manager and Vice General Manager, Mangers and Assistant Managers, functional heads and directors, and other similar management positions.					

- **Tax rate**

There are three different tax rates of IIT:

1） Income from salary

A 7-grade progressive taxation system is applied based on monthly taxable income, with tax rate from 3% to 48%.

2）Income from business operations and income from contractual management and leasing by individually-owned businesses

A 5-grade progressive taxation system is applied based on the income from business operations and income from contractual management and leasing by individually-owned businesses, calculated on an annual basis and pre-paid on monthly installments, with tax rate from 5% to 35%.

3）Other income

Income from author's remuneration, labor service, franchise operations, interest, dividends, bonuses, lease of property, asset transfer, incidental income and other income shall be taxed at 20% each time. For income from author's remuneration, a 20% tax rate is applicable and a 30% reduction is applied on the taxable amount; If the income from labor service is excessively high, for the taxable amount between CNY 20,000 and 50,000, another 50% will be levied in addition to the tax payable; for the taxable amount over 50,000, another 100% will be levied in addition to the tax payable.

4）Regulations on tax exemptions for expats (partial list)

The following income items are exempted from IIT:

a. Reasonable levels of housing allowance, meal allowance, relocation expense and laundry expense through non-cash means or cost-based reimbursement.
b. Reasonable levels of travel allowance, domestic and international.
c. The portion of home leave allowance, language learning fees and education fees for children, as deemed reasonable by local tax authorities.
d. Dividends and bonuses from foreign-funded enterprises.
e. Salary of foreign experts, as defined by national regulations.
f. Dividends from domestic companies that issue B-shares or overseas stocks (including H-shares), paid to a foreign individual holding such B-shares of overseas stocks.

- **Tax returns and payment**

IIT is calculated and collected either monthly or annually. Income from business operations and income from contractual management and leasing by individually-owned businesses, salary income in certain industries and income paid by an overseas entity are calculated and collected annually, while other taxable amount are calculated and collected monthly. As a general practice, tax on salary is withheld and paid by the employer. IIT is filed and paid within 15 days since the beginning of the next month.

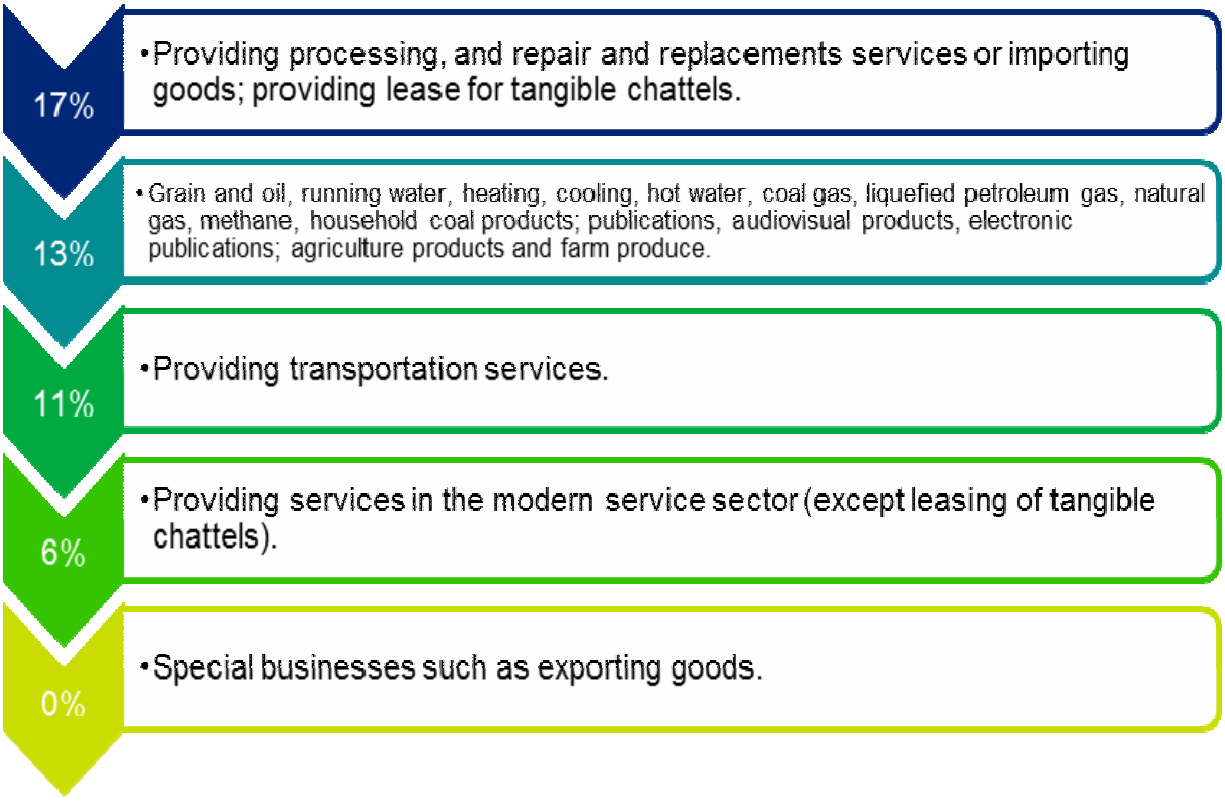
2.2.3.5 Some of other taxes

1）Value-added tax

- **Definition**

The VAT is imposed on the entity and individual engaged in marketing goods, providing processing, and repair and replacements services or importing goods within China. It has become the largest tax in China, accounting for over 60% of total tax revenue. The VAT is collected by the State Tax Bureau and the VAT during import stage is collected by the Customs. China adopts the international practice of tax deduction in computing VAT. The difference between the tax payable for selling products or services and the input tax payable for purchasing such products or services is the VAT payable. This method reflects the principle of taxation on incremental gains.

- **Tax rate**



- **Tax returns**

The timeframe of tax returns for VAT is linked to the assessable period approved by the state tax authority. It can be 1 day, 3 days, 5 days, 10 days, 15 days, 1 month or 1 quarter. When a taxpayer's time allowance for tax payment is 1 month or 1 quarter, he shall file tax returns within 15 days after expiration of the time limit; if the term is o1ne day, 3 days, 5 days, 10 days or 15 days, the taxpayer shall make an advance payment within five days after the expiration of the term and file tax returns and clear the tax payable of the previous month within ten days beginning on the first day of the succeeding month. Only small taxpayers are eligible for 1-quarter time allowance. An owner of a fixed business operation shall file tax returns to the local tax authorities. Owners of mobile business operations shall file tax returns to the tax authorities of the localities of the sales for tax payment.

- **VAT reform**

To address the issue of double taxation in goods and services and support the development of a modern service sector, the State Council decided in 2012 to expand the coverage of VAT and include some modern services (technical and knowledge-based services for manufacturing, culture and entertainment and modern logistics) in the VAT system.

As of August 31, 2013, the VAT reform was rolled out nationally. According to the State Council decision, rail transportation and postal services would be included in the VAT reform from January 1, 2014, marking the full inclusion of the transportation industry in the VAT reform. Starting from June 1, 2014, the telecommunications industry was also included. At the beginning of 2016, Premier Li Keqiang chaired a workshop on further expanding the VAT reform to speed up restructuring of the taxation system and reducing tax burdens of enterprises. According to the government work plan, from May 2016 China would expand the scope of the reform to cover construction, real estate, financial services and household services. In addition, all VAT contained in newly added real estate assets of enterprises would be eligible for deduction, to ensure that tax burdens of all industries will only go down, not up.

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[6] General taxpayer：（1）a taxpayer producing goods or taxable services, or taxpayer enganged mainly in producing goods or taxable services(revenue from such goods or services should account for 50% of total taxable revenue) while also running wholesale or retail business, with more than CNY 500,000 in annual taxable revenue;（2）a taxpayer running wholesale or retail business with more than CNY 800,000 in annual taxable revenue.

[7] Small taxpayer: （1）a taxpayer producing goods or taxable services, or taxpayer engaged mainly in producing goods or taxable services(revenue from such goods or services should account for 50% of total taxable revenue) while also running wholesale or retail business, with less or equal than or equal to CNY 500,000 in annual taxable revenue;（2）a taxpayer not covered by the previous article, with less than or equal to CNY 800,000 in annual taxable revenue.

2）Customs duty

- **Computation**

Ad valorem tax

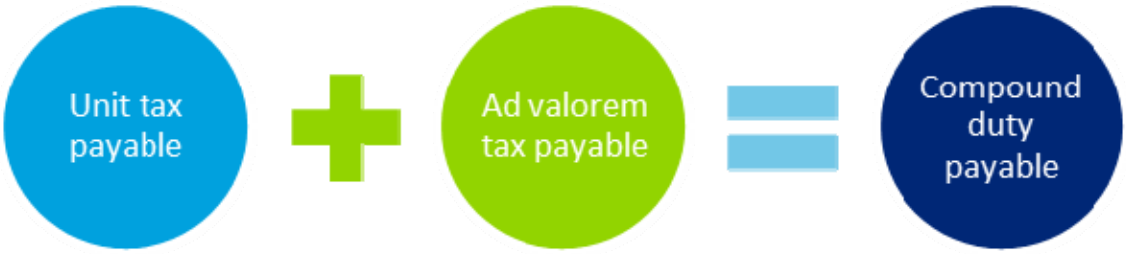
Ad valorem tax is computed based on the value of imported or exported goods. The value here is not the value of transaction, but dutiable value which must be determined first.

Unit tax

Unit duty is computed based on units, such as quantity, weight, volume, length and area. It does not change with the price of the goods and is simple to calculate. The formula is as follows:

Compound duty

Compound duty is also called mixed duty. It combines unit tax with ad valorem tax, with the formal as the foundation. It is computed according to the below formula:



- **Payment**

In general, the customs receiving the declaration of imports or exports shall calculate the customs duty for each shipment and issue bill of payment, with which the taxpayer can make payment to the

customs or designated banks. After receiving bank acknowledgement, the customs then goes through the clearance and discharge process.

- **Reduction and exemption of customs duties**

  a. If the country of origin of the goods is a party to an FTA with China and the goods covered by the FTA, the importer is eligible for the preferential tax rate (usually lower than the most favoured nation (MFN) rate). (The importer must also satisfy all other conditions as required in the FTA, such as those concerning the country of origin, direct transportation and documentation.)
  b. For foreign-funded enterprise in the encouraged industries as specified in the Catalogue for the Guidance of Foreign Investment Industries, machines and equipment imported for self-use can be exempted from customs duty, except those listed in the Catalogue of Imported Goods not Enjoying Tax Exemption for Foreign Investment Projects.
  c. For machines, equipment and other goods temporarily imported and will be re-exported, exemptions can be granted under certain circumstances. The duration is usually 6 months but it can be extended to 1 year. Sometimes a deposit for customs duty is required.
  d. Imported raw materials for processing on order can be exempted from customs duties and VAT.
  e. Goods going through bonded zones can be exempted from customs duties and VAT under certain circumstance.

3）Consumption tax

The consumption tax is levied on such items as tobacco, alcohol, firecrackers, fireworks, cosmetics, petroleum products, precious jewelry and gems, golf ball and clubs, luxury watches, yachts, wooden disposable chopsticks, solid wood flooring, motorcycles, sedans, batteries and paint. There are 15 items in total, under 3 of which 13 sub-items were covered, totaling 25 items. Proportional tax rate is used in 21 items, while normquota tax rate applies in 4. There are 13 grades of tax rates, from 3% to 56%.

The prescribed time limit for paying consumption tax is the same as that for VAT, with the exception of consigned manufacturing. The consumption tax is computed in a similar fashion with customs duty, with variances depending on the actual product.

A taxpayer shall report and pay taxes on the taxable consumer goods sold and the taxable consumer goods produced for own use to the tax authorities in the place where the institution or domicile of the taxpayer is located, unless otherwise stipulated by the State Council. For the taxable consumer goods processed on consignment, the consumption tax shall be withheld and forwarded by the entrusted to the tax authorities of the place where its establishment or domicile is located, except when the entrusted is an individual. Consumption tax on imported consumer goods shall be declared and paid to the customs office wherein import declaration is made. For taxable consumer goods sold by the taxpayer or its agent in a different county (city), the consumption tax shall be reported and paid by the taxpayer after selling the goods to the tax authorities of the place where its establishment or domicile

is located. For taxpayer whose headquarters and subsidiaries are located in different counties (cities), they should report separately to their local tax authorities (except wholesale of cigarette); With approval from MOFCOM, SAT or their authorized fiscal and tax institutions, the headquarters can report and pay taxes on a consolidated basis to the tax authorities of the place where its headquarters is located.

2.2.4 Foreign exchange administration

2.2.4.1 China foreign exchange regime

To facilitate balance of payments and administration of foreign exchange ("forex"), China promulgated the Regulation on Foreign Exchange Administration in 1996. In 2008, the Regulation was amended to further facilitate trade and investment, mitigate risks in international payments and create a level playing field. According to the Regulation, China manages its forex under the current account and capital account.

- **4.1.1. Convertibility under the current account**

The current account consists of balance of trade, net income from abroad and net current transfers. According to Article 5 of the Regulation on Foreign Exchange Administration, China does not impose restrictions on international payments and transfers of current account transactions. Collection and settlement of forex, however, is regulated by the State Administration of Foreign Exchange (SAFE), even under the current account. Transactions under the current account must be authentic and legitimate. Therefore, financial institutions undertaking collection and settlement of forex should conduct reviews on its authenticity and legitimacy.

- **4.1.2. Stringent control of the capital account**

The capital account is the net result of capital flowing in and out of a country. It reflects the changes in credit and liabilities between a nation and other nations, including transfer of assets or financial assets between residents and non-residents. The Regulation on Foreign Exchange Administration has stringent requirements on the capital account. Direct investments within China by foreign entities or individuals shall be registered with the forex administration agencies after being approved by the relevant departments. Issuances and transactions of securities or derivatives within China by foreign entities or individuals shall conform to the provisions on market access, and shall be registered in accordance with the provisions of the forex administration department of the State Council.

According to current regulations on external debts, a foreign-funded enterprise does not need approval to borrow from an overseas bank. Only filing is required. However, the amount of external debts shall not exceed the difference between its total investment and the registered capital.

Forex income under the capital account shall be approved by the forex administration department. Forex payments under the capital account need to be approved only if required by national regulations.

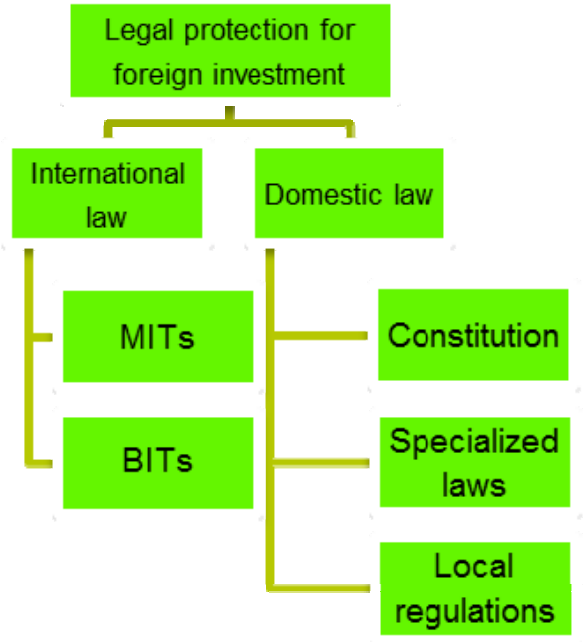
As compared with the current account, where review is only required for the authenticity of the documents and consistency of payments, under the capital account overseas institutions and individuals must go through approval and registration processes and conform with market access rules, whether for direct investment or issuance and transaction of securities or derivatives. It is evident that China's administration of the capital account is more stringent, both in practice and in procedure.

At the moment, the State Council is preparing for an amendment of the Regulation on Foreign Exchange Administration, to keep pace with the speed of China's opening up and reform. Zhou Xiaochuan, the Governor of PBoC, pointed out that this amendment would focus on facilitating investment by individuals both within and outside of China, further opening up the capital market, and capital account convertibility, so that Renminbi could become a currency that can be used freely. [8]

2.2.5 Other foreign investment-related laws and regulations

2.2.5.1 China's legal protection

The legal protection offered by China to foreign investment can be categorized into protection under international law, as specified in relevant treaties, and protection under Chinese law. The latter can be further divided into three levels: constitutional protection, protection by specialized law adopted by the NPC, and protection by local laws and regulations. The below is an overview.



- **Protection by international treaties to which China is a party**

(1) Multilateral investment treaties (MITs)

[8] Zhou Xiaochuan: the capital market will be opened up further,http://finance.sina.com.cn/hy/20150322/144621777756.shtml, visited on Sep 1 2015

Year of signing	Name	Scope
1988	Convention Establishing the Multilateral Investment Guarantee Agency (MIGA)	To issue guarantees to private investors against non-commercial risks, including expropriation, currency transfer, breach of contract, war and civil disturbance; and to provide investment promotion services to member countries to encourage investment into developing nations.
1994	Agreement on Trade-Related Investment Measures (TRIMS)	To promote the expansion and progressive liberalisation of world trade and to facilitate investment across international frontiers so as to increase the economic growth of all trading partners, particularly developing country Members, while ensuring free competition. Members adopt investment measures that are consistent with the obligations of national treatment and general elimination of quantitative restrictions.
1990	The International Center for Settlement of Investment Disputes(ICSID) Convention	Provides facilities for conciliation and arbitration of investment disputes (especially between developed and developing nations) and promote investment into developing nations.

(2) Bilateral investment treaties（BIT）

To date, China has signed BITs with 102 countries.[9] Those from CEE include: Bulgaria, Hungary, the Czech Republic, Slovakia, Ukraine, Belarus, Moldova, Albania, Croatia, Estonia, Slovenia, Lithuania, Romania, Serbia and Macedonia. Many established principles of international trade, such as fair and equitable treatment, most-favored-nation treatment and national treatment, are fully embodied in these treaties, which lay a solid foundation for China's trade ties with these countries.

- **Protection by domestic laws**

(1) Constitutional protection

According to the Constitution, foreign enterprises are permitted to make investment in China and carry out collaboration with Chinese counterparts in various forms. Foreign enterprises in China must abide by Chinese laws, which protect their legitimate rights and interests.

[9] List of China's Bilateral Investment Treaties, Department of Treaty and Law, MOFCOM

(2) Protection by specialized laws

The Law on Chinese-Foreign Equity Joint Ventures, Law on Foreign-Capital Enterprises and Law on Chinese-Foreign Cooperative Joint Ventures all stated that the profit and other legitimate proceeds of foreign investors from investment in China are protected by Chinese laws.

2.2.5.2 China's intellectual property rights protection

The intellectual property rights (IPR) in China are protected by laws, administration rules and departmental regulations. Driven by international pressure and domestic economic goals, the legal protection framework for IPR in China is getting closer to that in developed nations. As the legislations and enforcement continue to mature, this framework is seeing constant improvement.

- **A history of legislative efforts**

In 1980, China became a member of the World Intellectual Property Organization (WIPO).

In 1983, China enacted the Trademark Law.

In 1985, the Patent Law went into force. In the same year, China joined the Paris Convention.

In 1989, China signed the Madrid Agreement Concerning the International Registration of Marks.

In 1991, China enacted the Copyright Law.

In 1992, China joined the Berne Convention and Universal Copyright Convention

After its accession into the WTO, China continues to improve its IPR laws and regulations to be finality consistent with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

- **Enforcement**

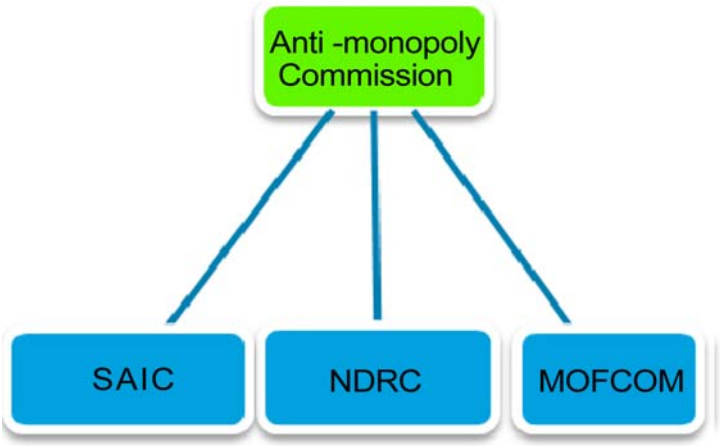
China adopts a unique "dual-track" model in IPR enforcement, with both administrative and judicial protection.

In administrative protection, administrative methods are employed to protect IPR; in judicial protection, the rights holder can file criminal or civil litigations against the infringer in court, and the party rejecting an administrative penalty can also file administrative litigations in court. The former is efficient, low cost and flexible, while the latter is more consistent, specific and has finality. Since China's accession into the WTO, China has seen a steady increase in the foreign party-related IPR cases. In 2013, courts in China accepted more than 110,000 IPR cases, making China the world's largest country in terms of number of IPR cases.[10]

[10] Legal Daily: China accepts largest number of IPR cases, http://www.legaldaily.com.cn/index/content/2014-11/04/content_5830953.htm?node=20908, visited on Sep 1, 2015

2.2.5.3 China's Anti-monopoly Law

China's first Anti-monopoly Law was promulgated on Aug 1, 2008, with 8 chapters and 57 articles, including general provisions, monopoly agreement, abuse of market dominance, concentration of business operators, abuse of administrative power to eliminate or restrict competition, investigation into suspicious monopolistic conducts, legal liabilities and supplementary provisions.



- **Enforcement agency**

At present, enforcement agencies in China include State Administration for Industry & Commerce (enforcement on non-price monopoly agreement, non-price abuse of market dominance and abuse of administrative power to eliminate or restrict competition), NDRC (enforcement on price-fixing) and MofComm (enforcement on concentration of business operators). The State Council has set up the Anti-monopoly Commission above these enforcement agencies.

- **Equality in enforcement**

Starting from 2010, foreign investment no longer enjoyed super-national treatment. Both domestic and foreign-funded enterprises competed on an equal footing, including in the area of anti-monopoly. In the enforcement of Anti-monopoly Law, all enterprises are treated equally. This will create a better business environment. It also means that enterprises of any nature, as long as monopolistic conduct exists, will be subject to anti-monopoly investigations.

2.3.1 Healthy market demand

As of 2014, China's population reached 1.36782 billion, the largest in the world. This represents a solid foundation for China's market. As global and regional economic integration continue to make headways, China will unleash more potential in its market demand. After the 2008 financial crisis, the world economy has been on the path of recovery. Even when faced with the grave challenge posed by the crisis, China still maintained a steady pace of growth. In 2014, China's GDP surpassed CNY 60 trillion for the first time to 63.6463 trillion and continued to rank 2nd in the world, laying a key macro-economic foundation for market development.

Globalization is the key theme in the world in areas such as economy, culture and technology. While China faces many internal and external challenges, it also enjoys many advantages given its diversity and maturing investment climate. China strives to build on its strength and create an investment environment full of opportunities for investors.

2.3.2 Increasing integration into the world economy

Since joining the WTO in 2001, China has witnessed the best period for its foreign trade. The rapid growth of trade has exerted positive influence on China's economic growth and transformation. As one of the largest developing nations in the world, China seeks active participation in world affairs and further integration into the world economy.

The multilateral trading system and regional trading arrangements have always been the driving force behind globalization. China is a strong proponent and engine of globalization, while also benefiting from it. China is further opening up by adopting the free trade zone strategy and speeding up the development of an open economy.

2.3.2.1 Free trade agreement

A free trade agreement (FTA) is a legally binding contract between two or more nations to promote economic integration by eliminating trade barriers and allowing free movement of goods and services. The trade barrier could mean customs duties or complicated rules. By reducing transactional cost and complexity, FTAs facilitate free trade, encourage the formation of new free trade zones (FTZs), and ultimately benefit world trade as a whole.

Currently, China has signed 14 FTAs covering 22 countries and regions. They are: FTAs between China and ASEAN, New Zealand, Singapore, Pakistan, Chile, Peru, Costa Rica, Iceland, Switzerland, South Korea and Australia; Closer Economic Partnership Agreement (CEPA) between Mainland

China and Hong Kong and Macau Special Administrative Regions, and Economic Cooperation Framework Agreement between Mainland China and Taiwan.

China's FTAs

Contracting states	Year of signing	Type
China-South Korea	2015	Between two countries
China-Switzerland	2015	Between two countries
China-Australia	2015	Between two countries
China-Pakistan	2015	Between two countries
China-Iceland	2014	Between two countries
China-Peru	2010	Between two countries
China-Costa Rica	2010	Between two countries
China-ASEAN	2009	Between a country and a region
China-New Zealand	2008	Between two countries
China-Singapore	2008	Between two countries
China-Chile	2005	Between two countries

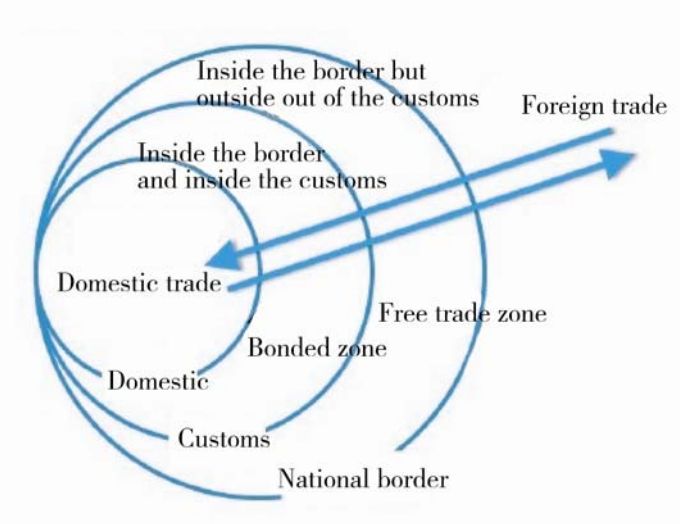
2.3.2.2 Renminbi internationalization

Renminbi internationalization is the process through which the Renminbi goes beyond national boundaries to be widely recognized as an invoicing, settlement and reserve currency. When a currency serves as a measurement of value in a given market, it will greatly reduce the transactional cost of trade and capital movement, creating more opportunities with improved scale and efficiency. The circulation of the Renminbi overseas does not amount to Renminbi internationalization yet, but it is a significant boost to this process.

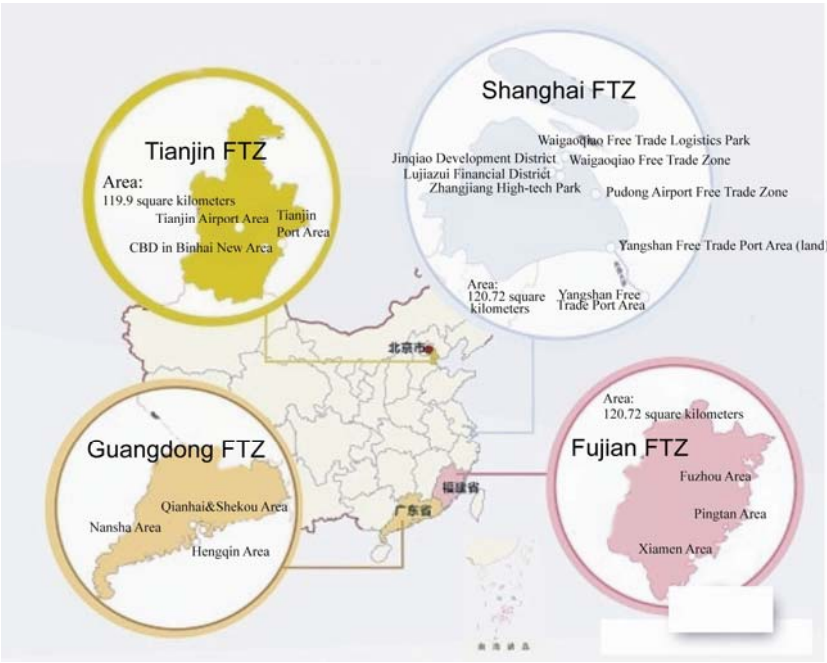
At present, the Renminbi is the fourth largest trading currency in the world. As China makes headways in signing FTAs with other countries and regions, the Renminbi internationalization is also in full swing. According to the Dec 2013 report of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), Renminbi became the world's 2nd largest funding currency in Oct 2013, next only to the US dollar. As of 2014, China signed currency swap agreements with 25 central banks in the world, extending the scope of Renminbi internationalization to cover Asia, Europe and Latin America. This will undoubtedly create a more enabling environment for China to attract foreign investment.

2.3.2.3 Pilot free trade zones

According to the Kyoto Convention published by the World Customs Organization in 1973, a free trade zone (FTZ) is defined as “a part of the territory of a Contracting Party where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the Customs territory.” In substance, an FTZ is an isolated area adopting a free port policy. In the FTZ, foreign vessels are granted free passage, foreign goods are imported tax-free, and quota on imports is lifted. As an extension of the free port, the FTZ is a more favorable arrangement in trade and investment than WTO rules.



The Chinese government gives top priority to the development of FTZs. The FTZ strategy was first articulated during the 17th National Congress of CPC in 2007. On September 12, 2013, the Shanghai Pilot Free Trade Zone (SHFTZ) was established and the successful pilot projects were rolled out nationwide. In Mar 2015 the Chinese government endorsed the plan to establish Guangdong, Tianjin and Fujian FTZs, while further opening up the SHFTZ, to create a free trade belt along the coastal



region and the national border.

The Shanghai, Tianjin, Guangdong and Fujian FTZs grow in harmony and each has its own unique strength. The Shanghai FTZ, as the first pilot FTZ, plays a pioneering role and aims to be the most open and international zone; The Tianjin FTZ, located at the center of the Bohai Rim Economic Zone, has the spillover effect to the Beijing-Tianjin-Hebei region and even the inland regions; The Guangdong FTZ, bordering Hong Kong and Macau, aims to facilitate collaboration between Mainland China and Hong Kong and Macau, driving growth in the PRD region and inland regions through restructuring of the processing trade; The Fujian FTZ will connect with Taiwan on the other side of the Taiwan Strait to build a platform for economic exchanges and drive growth on the west bank of the straits. The four FTZs will adopt a consistent filing system for establishing and changing foreign-funded enterprises, better aligned with the negative list model.

FTZ	Time of inception	Area and size	Functions
China (Shanghai) Pilot Free Trade Zone	Established on September 29, 2013; expanded in September 2014	Initially covers 28.78 square kilometres, with four special customs areas of the Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Free Trade Zone. Later expanded to 120.72 square kilometres.	As the first pilot FTZ, it is a pioneer in reform policies in government functions, financial regulation, trade services, foreign investment and taxation. It will also drive re-export and offshore businesses.
China (Tianjin) Pilot Free Trade Zone	December 12, 2014	Covers 119.9 square kilometres, with 3 functional areas of Tianjin Port Dongjiang Area, Tianjin Airport Area and Binhai CBD Area.	As the first FTZ in North China, it seeks coordinated development with Beijing, Tianjin and Hebei. Building on the Shanghai experience, it will focus on Tianjin's unique strength, including: serving real economy with institutional innovation; driving growth in Bohai Rim with Belt and Road Initiative; Strong focus on shipping industry, including shipping taxation and shipping finance.

FTZ	Time of inception	Area and size	Functions
China (Guangdong) Pilot Free Trade Zone	December 31, 2014	Covers 116.2 square kilometres, with three areas: Nansha Area (60 square kilometres, including Nansha Bonded Port Area), Qianhai&Shekou Area (28.2 square kilometres, including Qianhai Bay Bonded Port Area), and Hengqin Area (28 square kilometres.	This FTZ covers the PRD and focuses on in-depth collaboration between Guangdong and Hong Kong and Macau to driving industry restructuring in the Mainland and serves as a strategic hub in the 21st century maritime silk road strategy.
China (Fujian) Pilot Free Trade Zone	December 12, 2014	Covers 118.04 square kilometres, including 43 square kilometres of Pingtan Area, 43.78 square kilometres of Xiamen Area, and 31.26 square kilometres of Fuzhou Area.	This FTZ will provide strategic support to the Belt and Road Initiative and links to Taiwan.

The FTZs serve as pioneers in China's reform and opening up drive. Currently, there are still 140 industries in China that impose some restrictions on foreign investment. The success of SHFTZ, as the first of its kind, signals that the Chinese government will consider further liberalization in more industries. All four FTZs are running healthily since establishment, making breakthroughs in both the number of enterprises and value of registered capital. They are entering a period of stable growth.

FTZ	Time of inception	Number of enterprises	Number of foreign-funded enterprises	Total registered capital (CNY 100 million)
Fujian	2015-4-21	3,800	288	985.97
Tianjin	2015-4-21	7,053	280	1,739.8
Guangdong	2015-4-21	19,000	464	4,124.7
Shanghai	2013-9-29	12,266	1,677	3,400

Source: Statistical publications from each FTZ

Note: Fujian, Tianjin and Guangdong FTZ data as of July 31, 2015. Shanghai FTZ data as of Sep 29, 2014.

To date, the FTZs are already bearing fruit of trade facilitation, as shown below:

- The FTZs have promoted growth in trade and investment. The elimination of trade barriers and adoption of trade facilitation measures have spurred growth in multilateral trade, trade in services and investment.
- The FTZs have lowered operational costs and improve international competitiveness of enterprises. With the establishment of the FTZs, China will further improve its market access with more consistency and transparency. At lower costs of trade, enterprises will be able to participate in international collaboration on a larger scale and higher quality, thus improving their competitiveness in the international market.
- The FTZs have generated spillover effects to the neighboring regions by offering more opportunities in trade and investment. While the policies are limited to the FTZs, the neighboring regions can still leverage their proximity to the FTZs and carry out collaboration at a sub-region level to attract relocation of industries.
- The FTZs have also benefited consumers. With free trade, consumers are able to purchase a larger variety of products from all across the world at lower prices, improving their quality of life.

2.3.2.4 China as host to economic forums and international summits

"Peace, friendship, cooperation and development" is the common pursuit of every country in the world. As a key player on the world political and economic stage, China stands ready to work closely with other countries to improve its comprehensive national power and fulfill its responsibilities as a large nation. As China plays an increasingly important role in the world, government and business leaders from all over the world are coming to China for exchanges. China also pursues an active role in international affairs. By holding various world economic forums and summits as host, chair and organizer, China has provided a platform for world countries to address global crises. China welcomes foreign guests to come to China for investment and cooperation.

- **Partial list of international forms and summits held in China**

Event	Size	China's role
Bo'ao Forum for Asia	26 countries	Host
The Summer Davos Forum	Business, economic and technology leaders from 90 countries and regions	Host
Summit of the Conference on Interaction and Confidence Building Measures in Asia	26 member countries and 12 observing countries and organizations	Chair in 2014-2016 Host in 2014
The G20 Summit	20 member countries	Host in 2016

2.3.2.5 Overview of development zones in China

In 1984, the first group of economic and technological development zones were set up in the coastal cities in China. With their advantages in geographical location, infrastructure, business environment and government policy, these development zones became key destinations for foreign trade. In the past 30 years, the development zones across China have served as key engines for growth. Take the national-level high-tech development zones as an example, as of the end of 2014 there were 129 such zones in China, with around 800,000 enterprises; in 2014 gross product from these zones reached CNY 6.96 trillion, accounting for 10.9% of GDP; the total value of exports reached USD 435.1 billion, 18.4% of the national total.

As of 2014, there were more than 5,000 development zones at all levels in China, 219 of which were at the national level, covering all provinces and municipalities. Geographically, 107 were in the east regions, 66 in the central regions, and 46 in the west regions. For eco-industrial parks, the third generation of national level industrial parks, 26 have passed inspection and can start official operation, while 59 have received clearance for project initiation.

In addition, there are currently 10 state-level new areas in Shanghai, Tianjin, Chongqing, Zhejiang, Gansu, Guangzhou, Shanxi, Guizhou, Qingdao and Dalian.

Level	Type
State-level	Economic and technological development zone, high-tech industrial development zone, eco-industrial park, border economic cooperation zone, free trade zone, special customs supervision area, Taiwanese investment zone and national tourism and resort zone
Provincial-level	Economic development zone and special economic zone

As key destinations of foreign investment, the development zones in China experienced several stages of development in the past 30 years. At present, they are gradually shifting their focus from offering preferential policies to improving the business environment as a whole.

- **1984-1992: early stage of the development zone model**

The first 14 development zones were mostly in remote locations, far away from city centers and having little infrastructure. At that time, the development zones mainly leveraged preferential policies to attract investment, mostly in the labor-intensive industries. In the meantime, to overcome restrictions in the planned economy, these zones created the Administration Committee, a quasi-governmental model of governance, which became a mainstream model among later development zones. After 8 years of development, these zones put in place a reasonable set of manufacturing and supporting facilities. There were convenient daily life services as well as reliable utility, transportation and telecom services. Significant improvement of administrative efficiency and business support add to the attractiveness to foreign investors. By 1991, 14 state-level development zones attracted more than 1,350 investment projects, with contractual value of USD 2.5 billion, 3 million on average per contract, significantly higher than the national average and costal city average.

- **1992-2000: rapid growth**

With successful experience from the first group of development zones, the State Council approved the second and third group of state-level development zones starting from 1992. Geographically, these zones started to cover inland regions in the Northeast, Central and West regions. During this period, tax incentives, sound infrastructure and efficient administrative procedures became common among these zones, with the focus shifting towards business environment, supporting industries and talent support. The development zones targeted capital- and technology-intensive enterprises from China and abroad to optimize the industry mix in the zones and maximize efficiency. Through 10 years of further development, China saw the emergence of a group of world-class zones that became clusters for modern manufacturing. Some of them were also playing a pioneering role in the development of the modern service sector.

- **2002-present: a new era of innovation**

Since China's accession into the WTO, the number of development zones continued to rise. During this period, the role of the "standard" elements, such as policy incentives, further declined and the focus was on the business environment and talent support. Established development zones began to pay attention to such factors such as innovation support, ecosystem and sustainable development. They started to explore institutional innovation to create comprehensive advantages in the investment environment, aiming at integration of industries and the city to develop new types of urban are suitable for both life and work. The development zones attached greater importance to attracting high-tech businesses, with increasing attention given to local companies with proprietary IPR.

Looking back at the 30 years' history of development zones, a transformation is clearly taking place. They no longer compete on tax incentives to attract foreign investment, but on business environment, talent support and other supporting facilities. The development zones as they stand today are more like industrial parks with integrated services in business, trade and innovation.

2.3.2.6 The financial reform

Since 2013, China has picked up speed in its financial reform, launching a series of policies, such as the removal of floor on lending rates, lifting of controls on discount rates and widening the Renminbi exchange rate's floating range. The launch or planned launch of treasury bond futures, expansion in securities margin trading and issuance of preferred stock continues to improve the market investment structure.

As the interest rate liberalization accelerates, financial innovation continues to surface. The interest rate liberalization started in 1996, marked by the liberalization of inter-bank lending rates. Through almost 20 years of reform, a market interest rate system, represented by Shibor, is basically in place, creating a stronger market-based pricing mechanism. The market participants are also driving this process through innovation, wealth management products (WMPs) of banks and internet finance being typical examples. As the size of WMPs grows, the pricing is increasingly driven by market forces.

On October 23, 2015, the PBoC announced a series of policies: first, from Oct 24 2015, the one-year benchmark lending rate was lowered by 25 basis points to 4.35%; one-year benchmark deposit rate was lowered by 25 basis points to 1.5%. Second, it cut its reserve requirement ratio by 50 basis points, and another 50 basis points for financial institutions that met criteria of supporting agriculture, farmer and rural area and small and micro enterprises. Third, the ceiling on deposit rates would be abolished for commercial banks and rural cooperative financial institutions, a fundamental change to China's financial system to optimize resource allocation. Generally speaking, after 20 years of reform banks have seen a steady increase in its pricing power. The interest rates of deposit, lending, bond market and monetary markets have all been liberalized. The liberalization of the ceiling of deposit rates is a milestone in China's interest rate reform.

IV. Infrastructure

In the early years of reform and opening up, China first opened up the costal regions in East China, which had better infrastructure and economic foundation. Due to the clustering effect of investments, the Eastern region has always led the country in economic development and foreign investment. Therefore the infrastructure in East China is better than that in West China. In recent years, the regional difference is narrowing due to rapid growth in Central and West China.

2.4.1 Transportation infrastructure

With years of heavy investment, China has basically put in place a comprehensive network of transportation infrastructure, which keeps increasing in size and quality. In recent years, China has made breakthroughs in the institutional reform of the transportation system. The reform in investment and financing mechanisms has spurred investment in this industry and ushers in a new chapter for transportation.

2.4.1.1 Road infrastructure

By the end of 2014, China's total highway mileage reached 4.4639 million kms, with 111,900 kms of expressway, ranking first in the world; total mileage of grade I highway reached 85,400 kms and grade II highway 348,400 kms, 260.3 times and 18.6 times of the level in 1984 respectively. In the first half of 2015, CNY 646.9 billion was invested in highway construction, growing 10.2% YOY, among which 326 billion, 201.5 billion and 119.5 billion were invested respectively in expressway, national and provincial highway and rural highway, growing 9.2%, 6.5% and 20.0%.

China's toll road policy, launched in 1984, broke away from the dependence on fiscal means and helped to create a diversified financing model for road transportation combining investments from the national government, local government, the private sector and foreign investors. As a result, road infrastructure achieved leapfrog development, giving strong support to China's economic growth with higher transportation efficiency.

2.4.1.2 Aviation infrastructure

Since 1990s, China's aviation industry has witnessed tremendous growth. By the end of 2014, there were 202 civil airports in China, 64 of which had annual passenger traffic of more than 1 million. Passenger traffic in the Beijing, Shanghai and Guangzhou airports accounted for 28.3% of the national total, with Shanghai being the largest hub for air traffic.

- In 2014, China's aviation industry achieved total volume of 74.812 billion ton-km, growing by 7.639 billion ton-km, or 11.4% over the previous year. Passenger ton-kilometer reached 56.034

billion ton-km, growing 5.891 billion, or 11.7% over the previous year; cargo ton-kilometer reached 18.777 billion ton-km, growing 1.748 billion, or 10.3% over the previous year.

- In 2014, total passenger traffic handled by the industry reached 391.95 million, growing 37.98 million, or 10.7% YOY. Domestic passenger traffic reached 360.4 million, growing 32.98 million, or 10.1% YOY, of which Hong Kong, Macau and Taiwan traffic reached 10.05 million, growing 1.01 million, or 11.2% YOY; International passenger traffic reached 31.55 million, growing 5 million, or 18.8% YOY.
- In 2014, passenger traffic through all civil airports reached 832 million, growing 10.2% YOY. Passenger traffic in East China reached 461 million, Northeast China 51 million, Central China 83 million, and West China 237 million.

By the end of 2014, China had 3,142 scheduled flights, with a total mileage of 7.0311 million kms, or 4.6372 million kms when overlapping segments were excluded. These flights connected to 198 domestic cities (excluding Hong Kong, Macau and Taiwan). International scheduled flights of Chinese airlines connected to 123 cities in 48 countries. Domestic scheduled flights connected to Hong Kong from 37 Mainland cities, to Macau from 11 Mainland cities, and to Taiwan from 43 Mainland cities.

2.4.1.3 Railway infrastructure

As a typical continental country, China covers a vast span of territory and requires a powerful means of transportation to connect parts of the national economy while facilitating the development of other means of transportation. The most prominent feature of railway is the large payload, low cost of operation, and low energy consumption. It is not only a superior mode of transportation in long haul and large volume passenger and freight transport, but also enjoys strong competitiveness in urban short haul passenger transport with large volume and high density. It is therefore a core mode of transportation best suited to the economic, geographical and income conditions of China.

By the end of 2014, railroad lines open to traffic reached 112,000 kms, growing 8.4% YOY. The high-speed railroad lines open to traffic reached 16,000 kms, with 44,000 kms in West China, growing 10.2% YOY. The density of railroad network reached 116.48 km/10,000 square km, up by 9.04 km/10,000 square km. Double track railway totaled 57,000 kms, growing 17.7%, with 50.8% of double track ratio, up by 4.0 percentage points; electric railway reached 65,000 kms, growing 16.9%, with 58.3% of electrification ratio, up by 4.2 percentage points. By the end of 2015, total railroad lines open to traffic is expected to reach 120,000 kms, next only to the US; high-speed railroad lines will reach 19,000 kms, more than all other countries combined.

China has accumulated rich experience in operating railroads and is able to handle all geological and climate conditions in a reliable and safe manner. In line with the Implementation Plan for the Belt and Road Initiative, freight trains from Kunming, Dalian and Harbin to Europe was newly opened to traffic, achieving expected outcome from the Initiative. In the first five months of 2015, container throughput from ASEAN, India, Middle East and African countries along the Belt and Road accounted for 25.0% of total throughput, up by 2.3 percentage points YOY.

- **Development of high-speed railway**

China's building of high-speed railway has won the attention of the rest of the world. As one of the few countries with high-speed railway, China's high-speed railway open to traffic has reached 16,000 kms, ranking top in the world and accounting for more than 60% of the world total. In 2015 China would invest more than CNY 800 billion to launch more than 8,000 km of railway, marking the third consecutive year of high-speed growth in railway development. In addition, more focus would be given to Central and West China.

As the Chinese government seeks to export its expertise from the largest high-speed railway network in the world, the revenue from this industry would hit a new high in 2015. The Belt and Road Initiative covers 26 countries and regions, generating USD 21 trillion of economic benefit. As the detailed plans and policies come into force, the manufacturing, infrastructure and construction, high-speed railway, nuclear power equipment, shipping and port and steel industries will witness huge opportunities. For the railway industry that relies heavily on bulk good transportation, this would bring tremendous opportunities. China is expected to embrace a fourth wave of investment in 2015.[1]

As the Lanzhou-Xinjiang, Guiyang-Guangzhou and Nanning-Guangzhou high-speed railways were opened to traffic at the end of last years, China added 3,210 kms to the total mileage of high-speed railway running at more than 250kph. The Zhengzhou-Xuzhou high-speed railway, an integral part of the Xuzhou-Lanzhou high-speed railway, one of the "four vertical and four horizontal" railroads outlined in the National Long-term Plan of the Railroad Network, reaches a full mileage of 361.9 kms with 9 stations. The train speed will reach 350 kph in the future and the total investment would reach CNY 49.7 billion. Once completed, it will connect with the Beijing-Shanghai and Beijing-Guangzhou railways, as well as connecting Zhengzhou with Xinjiang. By then the Central and West China and Central and East China will be connected in the same network and contribute to transportation between Asia and Europe. According to the government work report, by 2015 high-speed railway would connect to all cities with more than 500,000 populations, forming a nationwide high-speed railway network.[2]

2.4.1.4 Port and water transportation infrastructure

China is home to a long coastline and a large inland waterway system, with water transportation being a major means of transportation to connect inland regions with the outside world. Seaports, inland waterways and ports are key elements in this network. By the end of 2014, there were 126,000 kms of inland waterways in China, 13,000 kms of which were high-grade waterways. There were more than 2,200 10,000-DWT berths in the seaports, with the world's largest throughput. Between Jan and Feb 2015, China's waterway transported 910 million tons of cargo, growing 7.4% YOY. Cargo ton-km reached 1.4908 trillion ton-kms, growing 2.1% YOY. In the first half of 2015, CNY 64.8 billion investments were made in water transportation systems, growing 1.9%.

[1] "Chinese railway to see major development in 2015", Gaotie.cn, 2015-04-04，http://news.gaotie.cn/tielu/2015-04-04/230423.html
[2] Wang Ruojiao, Shi Peng, "Chinese high-speed railway to connect to all cities with 500,000+ people", Phoenix Finance, 2015-03-10, http://finance.ifeng.com/a/20150310/13543407_0.shtml

- **Geographical layout of seaports**

The seaports in China fall into five clusters, i.e. the Bohai Rim, YRD, Southeast costal area, PRD and Southwest costal area.

1. The Bohai Rim cluster consists of seaports in Liaoning, Tianjin, Hebei and Shandong. It mainly includes the Dalian International Shipping Center for Northeast Asia, Tianjin North China International Shipping Center, Qinhuangdao Port, Qingdao Port, Yantai Port and Rizhao Port. It serves Northern China regions, such as the three northeastern provinces and North China.
2. The YRD cluster, backed by the Shanghai International Shipping Center, is centered around the ports in Shanghai, Ningbo and Lianyungang. By leveraging the seaports and ports in the downstream of the Yangtze River in Zhoushan, Wenzhou, Nanjing, Zhenjiang, Nantong and Suzhou, it serves the economies in the YRD and along the Yangtze River.
3. In the Southeast costal area, Xiamen and Fuzhou ports play a dominant role. It also includes ports in Quanzhou, Putian and Zhangzhou. This cluster serves not only Fujian and inland provinces such as Jiangxi, but also builds trade ties with Taiwan.
4. The PRD cluster consists of ports in east Guangdong and the PRD. While reinforcing the role of Hong Kong as an international shipping center, it will focus on the ports in Guangzhou, Shenzhen, Zhuhai and Shantou to serve South China and Southwest China, building strong ties between Guangdong and inland China on the one hand, and Hong Kong and Macau on the other.
5. The Southwest cluster consists of ports in west Guangdong, costal Guangxi and Hainan. Centered around ports in Zhanjiang, Fangcheng and Haikou, it facilitates development in Central and West China and ensures expansion of transportation services between Hainan and other parts of China.

- **Inland water transportation**

China is home to more then 5,800 natural rivers with a total length of more than 400,000 kms. More than 100,000 kms have been developed into waterways, 70,000 km of which are navigable for motor vessels. There are also more than 900 navigable lakes of various sizes (excluding Taiwan, same below). These rivers and lakes usually contain abundant amount of water and most are ice-free. Most of the navigable rivers are located in developed regions with dense populations, flowing from west to east into the ocean and suitable for river-sea transportation. Main arteries of the inland waterways include:

1. The Yangtze River, the Golden Waterway of China, with 70,000 km of mainstream and tributaries, connecting with the water systems of Huaihe River, Pearl River and Zhejiang and Fujian. At present, freight traffic through the Yangtze River accounts for 42.6% of total inland water transportation. Major ports are Chongqing, Yichang, Shashi, Chenglingji, Wuhan, Huangshi, Jiujiang, Anqing, Wuhu, Maanshan, Nanjing, Zhenjiang, Zhangjiagang, Nantong and Shanghai;

2. The Pearl River is the largest water system in South China, with Guangzhou at its core. There are 1,088 navigable channels totaling 14,156 kms. Its value of shipping ranks second in China, next only to the Yangtze;

3. The Beijing-Hangzhou Canal, the earliest and longest artificial river in the world, partially makes up for the lack of natural waterways in the north-south direction and is playing a crucial role in north-south transportation
4. Other major inland waterways include, among others, Huaihe River, Heilongjiang River and Songhua River.

2.4.2 Other supporting facilities

2.4.2.1 Power supply

China has an abundant supply of electricity. While coal-based power generation is still playing a dominant role, power generation from non-fossil energy sources is growing quickly. In general power supply outweighs demand, with plenty of surplus in Northeast and Northwest. Between Jan and May 2015, absolute power generation reached 2.2187 trillion KWH, growing 0.2% YOY. Absolute coal-based power generation reached 1.7393 trillion KWH, down by 3.1% YOY. Absolute hydropower generation reached 318.2 billion KWH, growing 11.5% YOY.

China has attached great importance to the development of hydropower, giving it prominence in the restructuring of the energy mix. As China's largest source of renewable energy, hydropower has made tremendous contributions to emission reduction, climate improvement and economic development. China has high altitude in the west and low altitude in the east. Its major rivers originate from the Qinghai-Tibet Plateau and flow east into the sea, containing with them abundant hydroenergy and creating favorable conditions for hydropower development.

2.4.2.2 Internet/telecommunications

As China is experiencing rapid growth in industrialization, informatization and urbanization, the telecommunications infrastructure continues to expand in size. At present, there are more than 2 million base stations in China. The 3G licenses were issued in early 2009 and the 4G licenses were issued to the three main operators in 2013. A high-quality telecommunication network based on modern digital technologies is in place. It will play a crucial role in the development of new industries, such as cloud computing, big data, Internet of things, e-commerce and modern logistics. It will also support the implementation of the Internet Plus strategy and the building of smart cities. In the next 5 years, investment in the information infrastructure in China is expected to surpass CNY 2 trillion, in the fields of optical fiber networks, high-speed broadband and cloud computing center. China will continue to improve its capabilities and networks.

There are three major telecom operators in China, i.e. China Mobile, China Unicom and China Telecom. As of May 2015, China Mobile's subscribers totaled close to 820 million, with 220 million 3G subscribers and 170 million 4G subscribers. China Telecom had 190 million subscribers, with 129.18 million of 3G/4G subscribers. China Unicom had 290.306 subscribers. With 60.2% market share and higher than the other two combined, China Mobile is the largest operator in China.

As of December 2014, there were 649 million internet users in China, with a 47.9% internet penetration. Mobile internet users amounted to 557 million, growing by 56.72 million YOY. Share of mobile internet users rose from 81.0% in 2013 to 85.5%.

V. Human Resources

2.5.1 Supply of human resources

2.5.1.1 Overview

According to NBS, by the end of 2014, total population in Mainland China reached 1.36782 billion, of which 915.83 million were working-age population (between 16 and 60 years of age) and 772.53 million were employed. China has a huge working-age population and high labor force participation rate. In the past five years, the number of people employed kept rising. Some of the working-age population are receiving education and have not joined the workforce. Generally speaking, China has an ample supply of labor force with improving skills.

Fig. 2.5.1-1 Share of working-age population and employed population

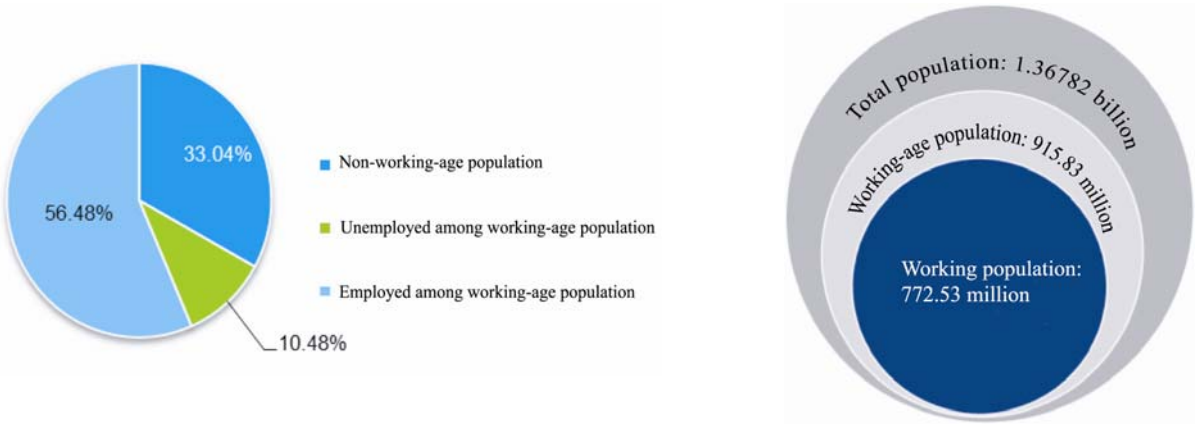
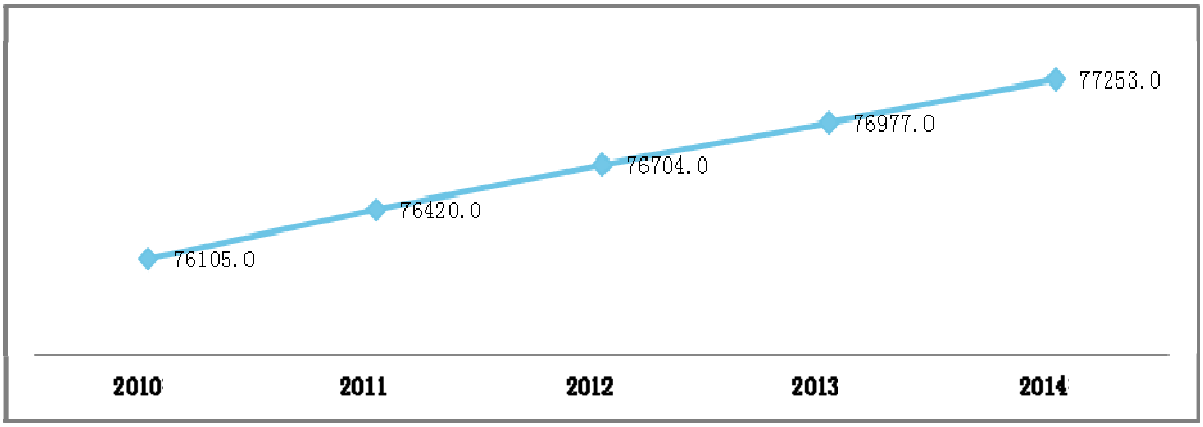


Fig. 2.5.1-2 Growth of working population

（10,000 people)

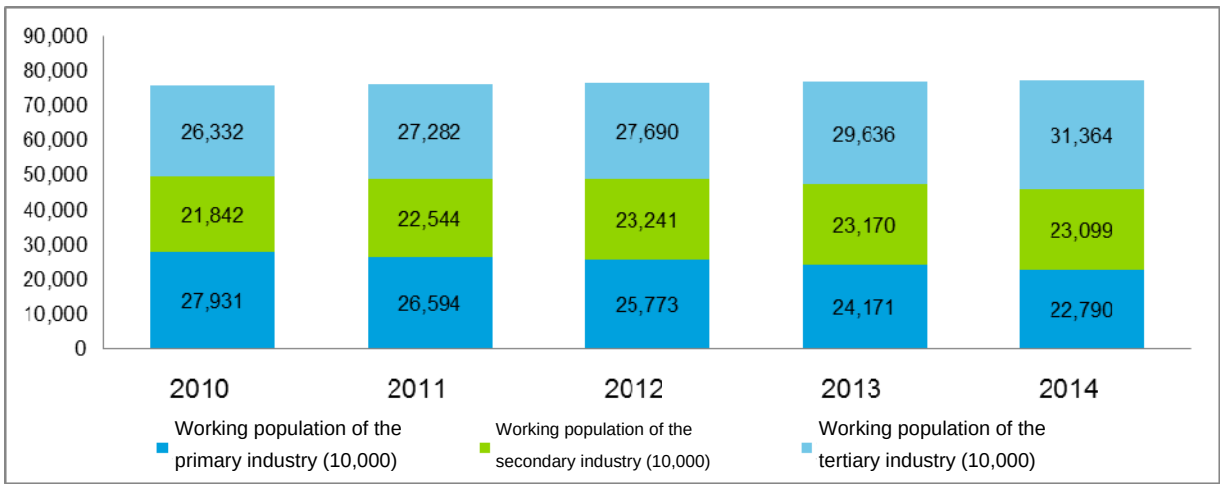


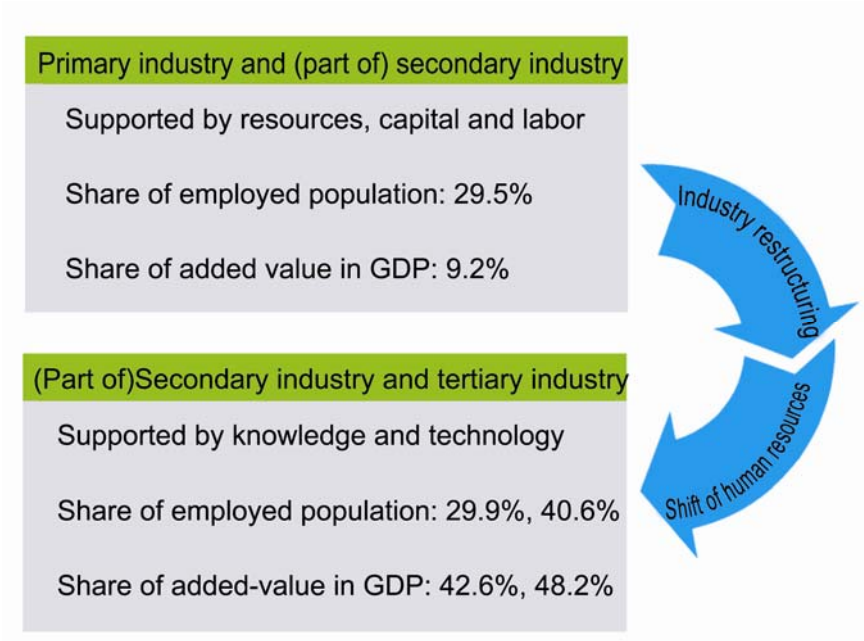
Source: Calculated with NBS data

2.5.1.2 Labor force by industry

The primary, secondary and tertiary industries in China respectively employ 29.5%, 29.9% and 40.6% of total labor force. To put this in context, the shares of added value from the three industries in 2014 were 9.2%, 42.6% and 48.2% respectively. As China transforms its industry structure, industries supported by resources, capital and labor are increasingly replaced by those supported by knowledge and technology. Consistent with this change, in the past five years the labor force was also moving from the primary industry to the secondary and tertiary industries, especially those who were well-educated and possessed technology skills.

Fig. 2.5.1-3 Working populations in the three industries and shifts in pattern

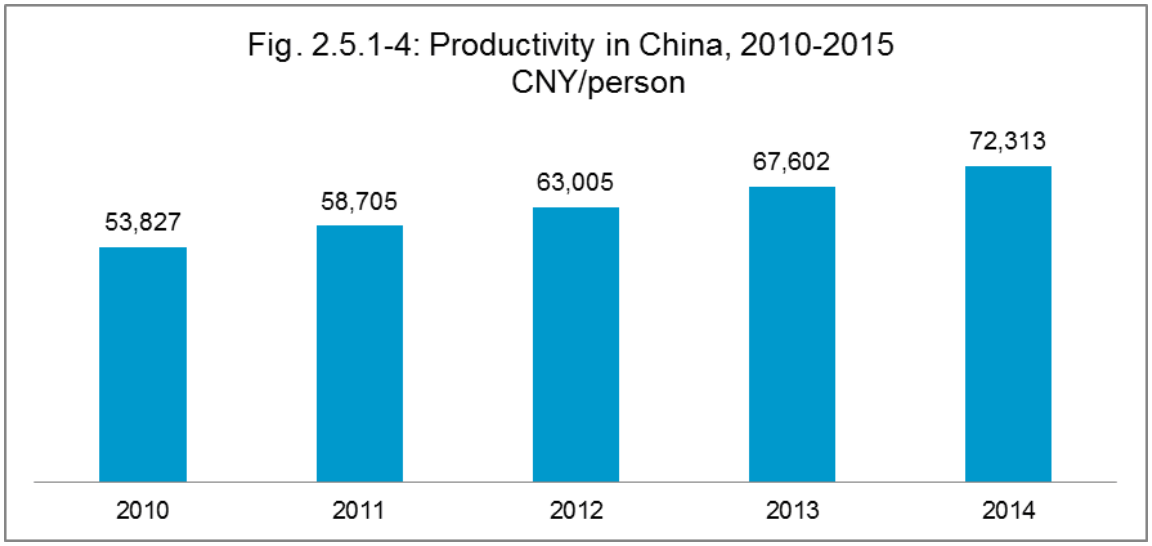




Source: NBS

2.5.1.3 Labor productivity

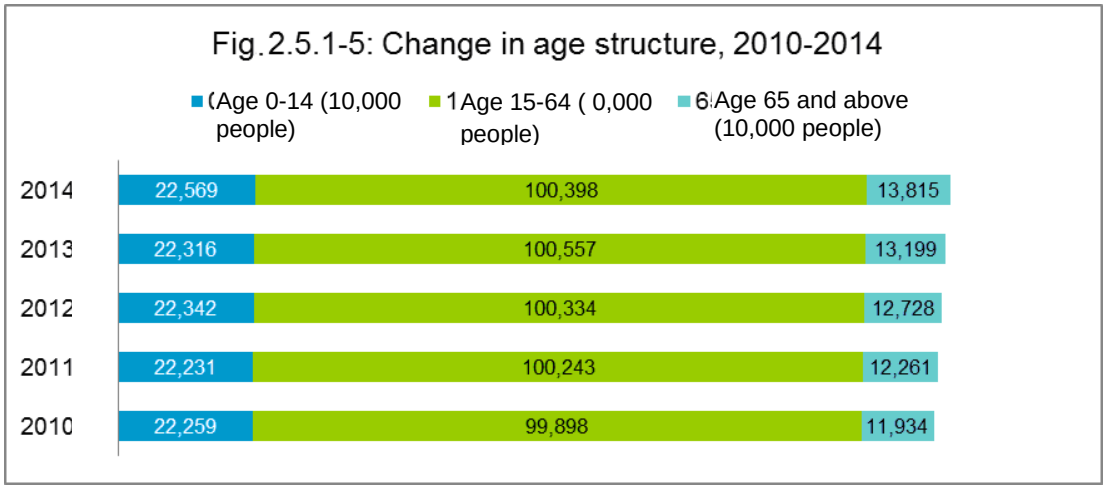
The national labor productivity is defined as the GDP (calculated at constant price in 2010) to toil number of labor force ratio. It is the average value generated by a worker in one year and represents productivity contribution from each person. In the past five years, China saw a steady gain in its labor productivity. In 2014, the national labor productivity was CNY 72,313 / person, growing 7.0% YOY.



Source: NBS

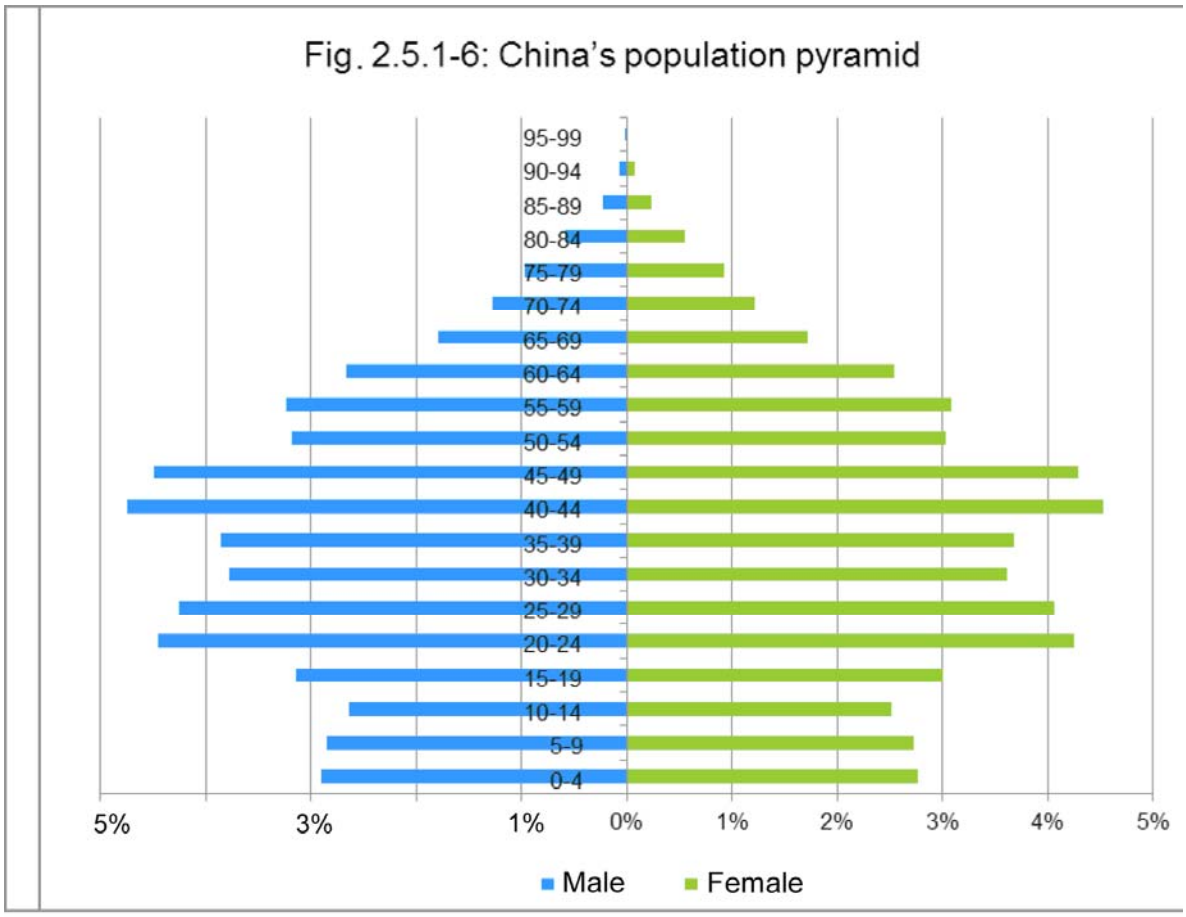
2.5.1.4 Age distribution

In the past five years, total population in China continued to grow. The size of working-age population will be stable and growing in the short run. According to a sample survey by NBS in 2013, in China the share of adolescents in total population is smaller than that of adults, showing an aging trend.



Source: Calculated with NBS data

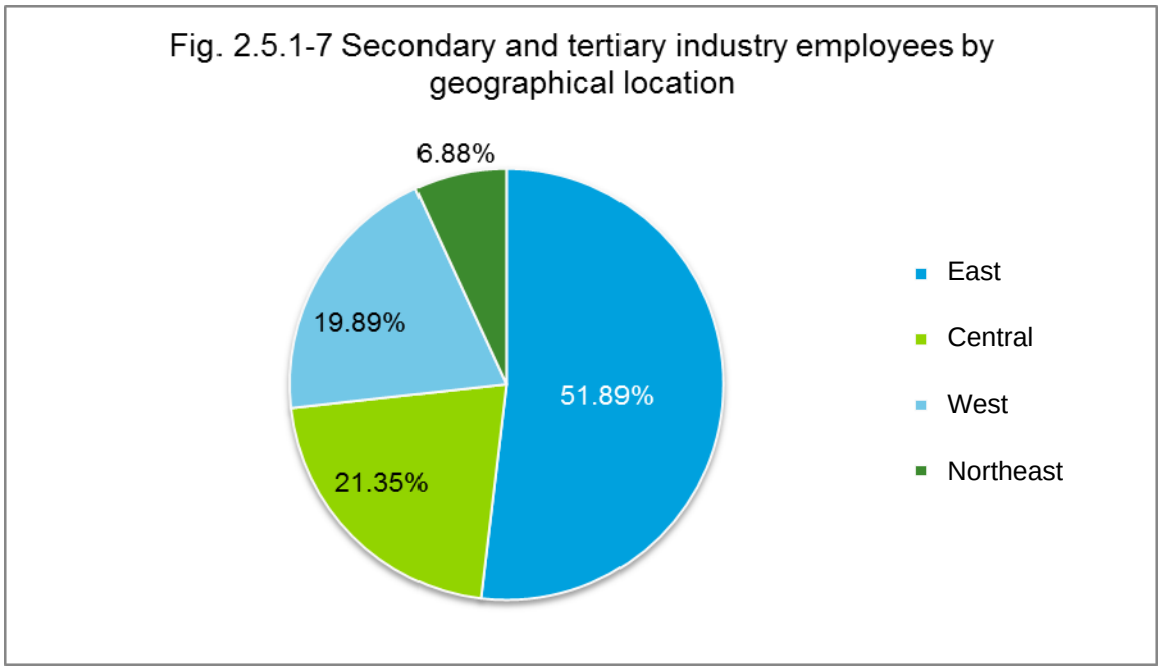
Judging from the population pyramid, China's labor supply will be stable and plenty in the next ten years. From a long-term perspective, however, China might face the risk of reduction in labor force. The government has given priority to this risk and taken measures to relax the family-planning policy to increase the size of adolescent population, and in turn the reserve for future labor force.



Source: Calculated with NBS data

2.5.1.5 Labor force by geographical location

In China, the total number of urban employees is 393.1 million, more than 50% of the labor force. Geographically, East China enjoys a workforce with higher quality. The labor force in the secondary and tertiary industries here account for 52% of the national total. The number is relatively smaller in Central and West China. The labor force working in the primary industry is distributed evenly.



Source: Calculated with data from the 3rd Economic Census

In China, the labor force is highly mobile. Since China's reform and opening up, the east costal area has been growing faster by attracting more investment and trade. It has created better infrastructure and more jobs with higher wages than other regions. As a result, there has been a steady flow of labor force into this area.

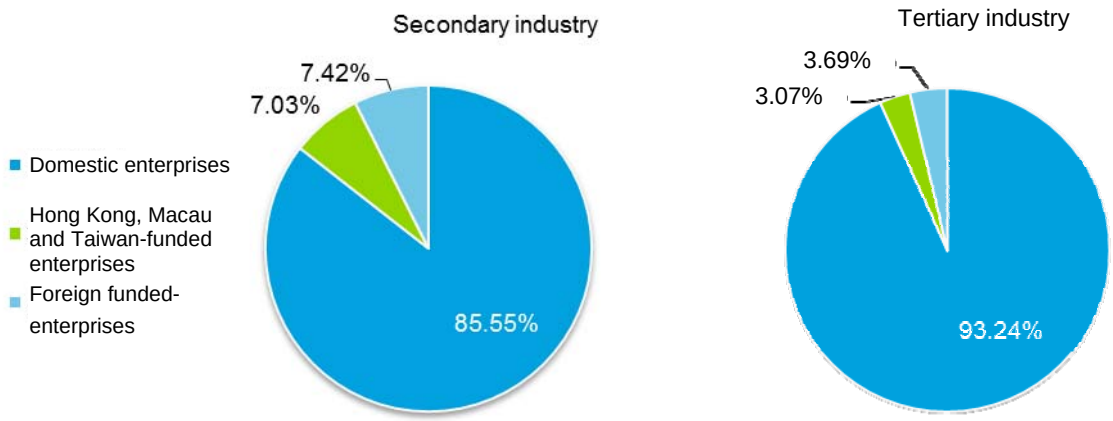
With the acceleration of growth in West China and stronger policy support from the government, however, there has been gradual productivity gain in inland China and the industry structure has become more sophisticated. Currently one key driver for growth in this area is the relocation of industries from East China and interaction across regions. As industries and investments shift from east to west, labor supply will also be improved.

Fig.2.5.1-8 Cross-region movement of working population

2.5.1.6 Employee by enterprise type in secondary and tertiary industries

According to the 3rd Economic Census, in 2013 7.4% and 3.7% of employees in the secondary and tertiary industry respectively are employed by foreign-funded enterprises. In recent years, as foreign language education gains in penetration and secondary and higher education covers more population, an increasing number of workers are bilingual and possess higher skills constituting a highly-skilled talent pool for foreign-funded enterprises in China.

Fig. 2.5.1-9 Employee by enterprise type in secondary and tertiary industries



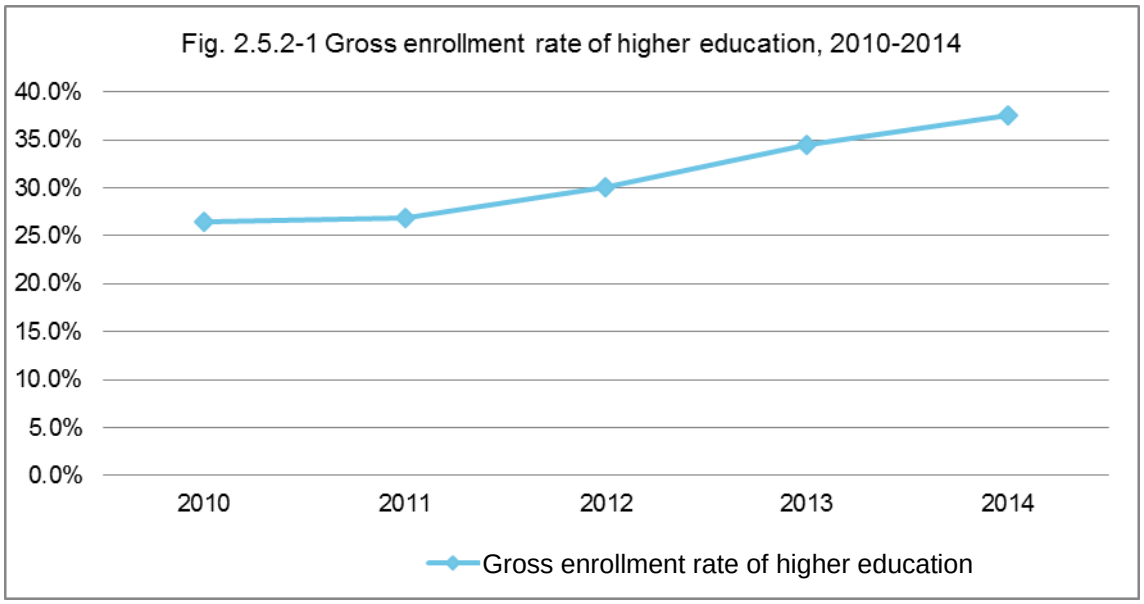
Source: Calculated with data from the 3rd Economic Census

2.5.2 Education and skills

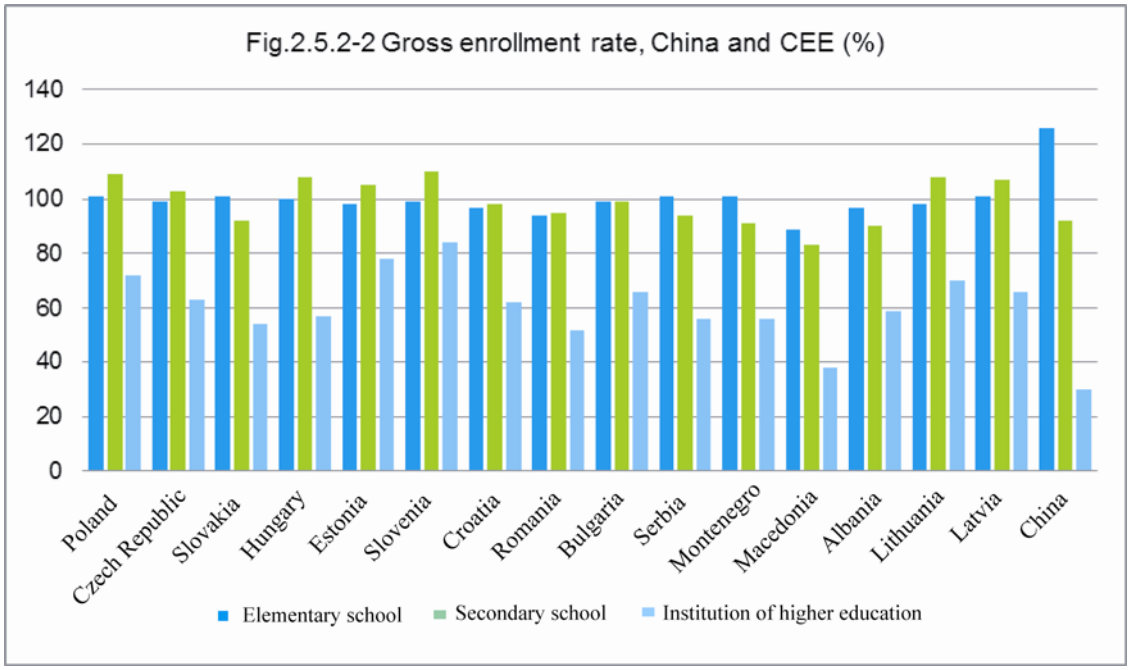
2.5.2.1 Education and skill level

According to the World Bank in 2013, China was leading the world in the penetration of elementary and secondary education, resulting in abundant supply of basic human resources. In recent years, as China improves penetration of higher education and quality of education infrastructure, the supply of highly educated works is growing each year. In addition, China is pushing forward the development of secondary and higher vocational education, increasing the labor force with technical capabilities. As of the end of 2014, 25.308 million people acquired various technical professional certificates on a cumulative basis, with 2.52 million newly added in that year.

In order to keep its competitive edge in labor force, the Chinese government has adopted a series of measures to encourage the development of higher education. It has set a clear goal for long-term education reform and development: by 2020 China is to be ranked among nations with leading quality of human resources, with further penetration of higher education, where gross enrollment rate reaches 40% and participation rate of continuing education exceeds 50%.



Source: Calculated with data from Ministry of Education



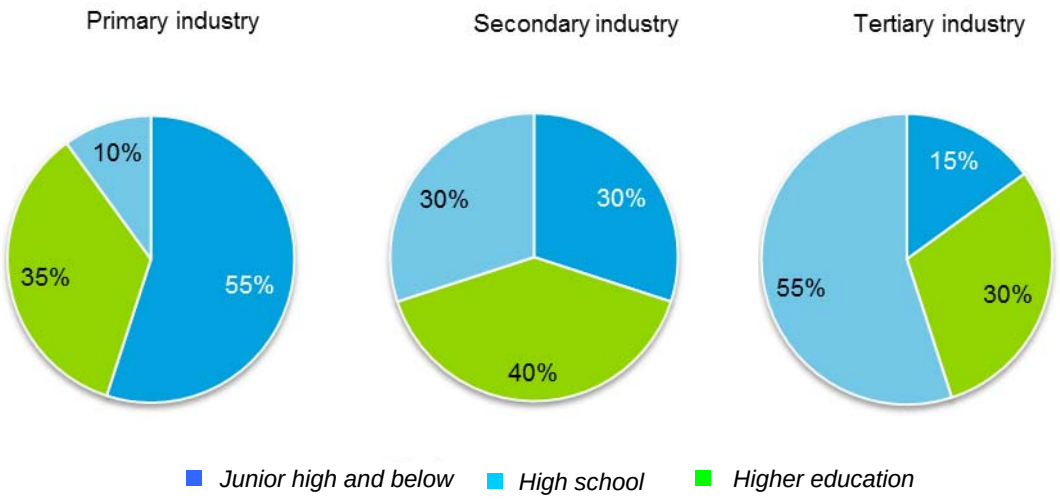
Source: The World Bank (no data from Bosnia and Herzegovina)

In the past decade, the share of employees with junior high school education and below was declining in the three industries, while that of employees with college education and above was on the rise. As China continues to improve penetration of higher education, the share of high quality talent will increase in all industries.

In the primary industry, there is a significant share of employees with junior high school education and below. The Ministry of Education has launches a series of reform policies in vocational education in rural areas to improve skill levels in this industry.

- In the secondary industry, 70% of employees have secondary and higher education background.
- In the tertiary industry, more than half of employees have received higher education.

Fig.2.5.2-3 Education background of employees by industry



Source: Calculated with Ministry of Education data

China's vision for education

Higher Education	• Develop a number of world-famous, high-quality universities with unique strength. Continue the 985 and 211 projects; • Optimize the portfolio of disciplines and nurture students with practical and inter-disciplinary skills. Accelerate the development of professional degrees for postgraduate students. • Improve laboratories, practical training bases in and outside out schools, curricula and textbooks; • Set up local foundation for higher education, give more support to Central and West China; • Give favorable policies to Central and West China in student enrollment. Encourage schools in East China to recruit more students from Central and West China. Schools in East China to offer more support to their counterparts in West China.
Vocational Education	• Work towards free vocational education at secondary level; • Establish a school development program where the government takes the lead, and the industry and enterprises can take part in building schools. Encourage industry associations and enterprises to run schools. Encourage practical training, internships and school-enterprise collaboration. • Strengthen faculty and training base development, developing basic capabilities; • Develop a quality assurance system for vocational education. Involve enterprises in the quality evaluation process; • Encourage continuous learning of graduates and offer more opportunities of learning.

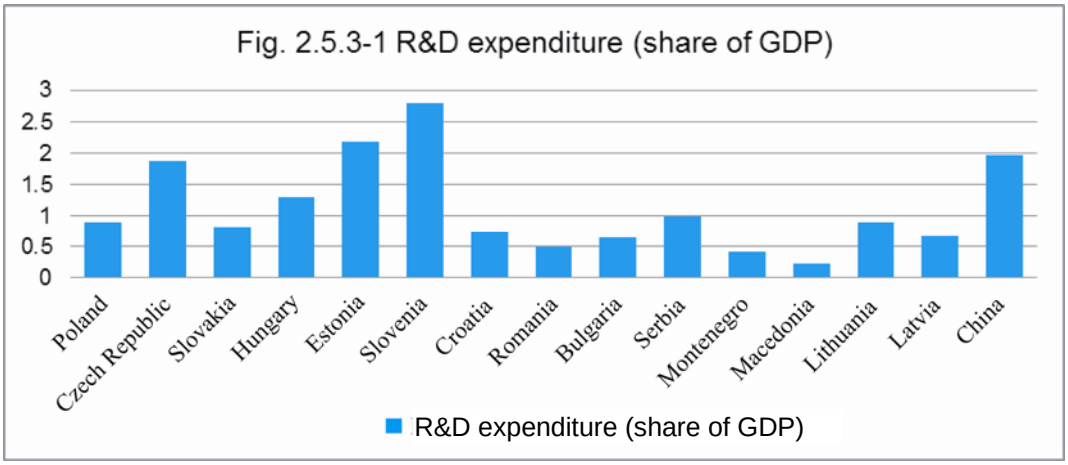
Rural education	• Speed up the development of vocational education for rural areas. Build a balanced system of basic education, vocational education and adult education. Promote interactions among agriculture, technology and education. • Improve agriculture-related disciplines and develop professionals suited to the needs of agriculture and rural areas. • Strengthen faculty and training base development, developing basic capabilities; • Encourage schools of all types to provide training for rural residents and migrant workers.

2.5.3 Research and innovation

As China continues to invest in innovation and build innovation capabilities, the environment for innovation in China keeps improving. The China Innovation Index (CII), designed and measured by NBS, is used to make vertical comparisons on innovation in China. CII in 2005 was 100. It reached 152.8 in 2013, growing 3.1% YOY. The Innovation Environment Index, Innovation Input Index, Innovation Output Index, and Innovation Effectiveness Index were 150.1, 154.1, 168.4 and 138.4, growing respectively by 4.2%, 1.3%, 2.6% and 4.6% respectively.

2.5.3.1 R&D input and output

According to the World Bank data in 2013, China's R&D expenditure to GDP ratio was relatively higher in comparison with 16 CEE countries, and the share of high-tech exports was much higher, demonstrating strong R&D and innovation capabilities.



Source: The World Bank (no data from Albania and Bosnia and Herzegovina)

Source: The World Bank (no data from Serbia and Montenegro)

2.5.3.2 National high-tech industrial parks

The national high-tech industrials parks in China are home to clusters of technology companies and resources of innovation. At present, there are 147 national high-tech industrial parks in China, most of which, or 65 parks are in East China. There are 33 parks respectively in Central and West China, 16 in Northeast China. A great number of R&D, innovation and commercialization organizations are concentrated in these parks, as shown below:

Type	Quantity
Incubators	1,031
State-level Science Parks of universities	52
Productivity enhancement centers	257
Technology transfer organizations	672
Strategic alliances for technology innovation	841
Product inspection and testing institutions	837
National Key Laboratories	290
Research Institutes	2,219
Corporate technology centers	8,049
Industrial technology institutes	653
Post-doctoral stations	996
Universities	615
National research centers	134
National engineering technology research centers	202

2.5.3.3 Institutions of higher education

China's system of higher education is of decent quality, with a number of universities enjoying good reputation in the world. It is an ideal environment to nurture high caliber talents. According to the 2014

QS World University Rankings, 14 universities in China were ranked among top 200 in the world, including:

• The University of Hong Kong	• Hong Kong University of Science & Technology	• Chinese University of Hong Kong University
• Tsinghua University	• Peking University	• Fudan University
• National Taiwan University	• Shanghai Jiaotong University	• City University of Hong Kong
• Zhejiang University	• University of Science and Technology of China	• Nanjing University
• Hong Kong Polytech University	• National Tsing Hua University	

2.5.3.4 Industry-University-Research collaboration

Industry-university-research collaboration is the cooperation among companies, research institutes and universities. The company, in search of a technology, partners with a research institute or university, who will supply that technology. The essence of such collaboration is the integration of key elements. China has a sophisticated system of industry-university-research collaboration, generating a lot of success stories. R&D professionals from various sectors are gathered in this system to development proprietary technologies, introduce technologies from abroad and commercialize them to drive economic growth.

In China, typical forms of such collaboration include: voluntary partnership between universities and companies on technology solutions and talent development; joint development of research centers, institutes and labs; development of science parks for research and commercialization; creation of foundations to support collaboration; introducing private capital to establish board of directors and create high-tech companies under universities; and comprehensive partnership between universities and local governments. Among them, the university science parks serve as a key touchpoint for industry-university-research collaboration. It is a center of innovation for universities, incubator for high-tech companies, training base for entrepreneurs, and catalyst for commercialization.

Successful examples of collaboration

- Tsinghua University: Technology transfer of "Ultra-Low Dose X-ray Device for Human Security Checks"

The Ultra-Low Dose X-ray Device for Human Security Checks technology is used for anti-drug and anti-terrorist purposes. After introducing the technology from Russia, the Tsinghua University made further innovation and created a large number of IPRs. Within one and half years, the device was completely localized, filling a white space in human security check in China.

- Tsinghua University: Commercialization of the "Large-scale Container Inspection System"

This system is used by customs against smuggling. Originally a research project in the university, it was commercialized by Tsinghua Tongfang, a high-tech company held by the university, with funds raised by public offering of shares. The system is now used in more than 60 countries and regions, with more than USD 200 million revenue and largest share in the world.

- iFlytek: commercialization of intelligent speech technologies

Created by a college student start-up, iFlytek is China's largest intelligent speech technology provider. It jointly developed a laboratory with University of Science & Technology of China and Chinese Academy of Social Sciences. It was one of the first companies to be recognized as Key Software Enterprise within National Planning. It has set up a post-doctoral station and undertakes National High-tech Industrialization Demonstration Project in speech technology. IFiytek has world-leading technologies in speech synthesis, speech recognition, oral language evaluation, and natural language processing. Appointed by the Ministry of Information Industry of China, IFlytek is now leading the work group to set up the Chinese speech technology standard. It is the only company in the speech technology industry to become the "Commercialization Base for the Results of the National High-tech R&D Program of China (the 863 Program)".

- **East China University of Science and Technology and Sinopec collaboration on APC for ethylene plant**

Ethylene is a crucial input for the petrochemical industry. The research team of East China University of Science and Technology worked with Sinopec Yangtze Petrochemical Company Ltd to develop APC control technology for ethylene cracking furnace and ethylene and propylene rectifying towers. This technology requires less investment but generate higher efficiency, with simple maintenance requirements. Starting from 2000, the technology has been in use on the large-scale ethylene equipment in Sinopec Qilu, generating significant benefits.

- Central South University and CHALCO collaboration on aluminum processing technology

Central South University is home to the world's most sophisticated non-ferrous metal disciplines and national key laboratories. CHALCO is one of the top three aluminium producers in the world. The "smart electrolysis control technology" and "simulation and optimization of large Pre-baked slot physical fields" were applied in 95% of the aluminium industry in China. The power savings from the technologies is equivalent to half of the power generated by the Three Gorges Station in 2004. The

Bayer process for aluminum oxide, developed by the two parties, extended the bauxite reserve from 10 years to 40 years.

- Northwest Agriculture & Forestry University: new model for rolling out agriculture technology

The university established 9 permanent labs and 110 demonstration bases in Shaanxi, with the participation of more then 1,000 research staff. 350 new crops and new technologies were promoted, more than 30,000 people were trained, 330,000 people received on-site coaching, more than 2,400 demonstration households were set up, 865 crops from abroad were introduced and 21 new crops were chosen for breeding. Through collaboration, the university has identified an effective model for rolling out new technology and gained much experience in the “last mile” of agriculture technology.

2.5.4 Cost of human resources

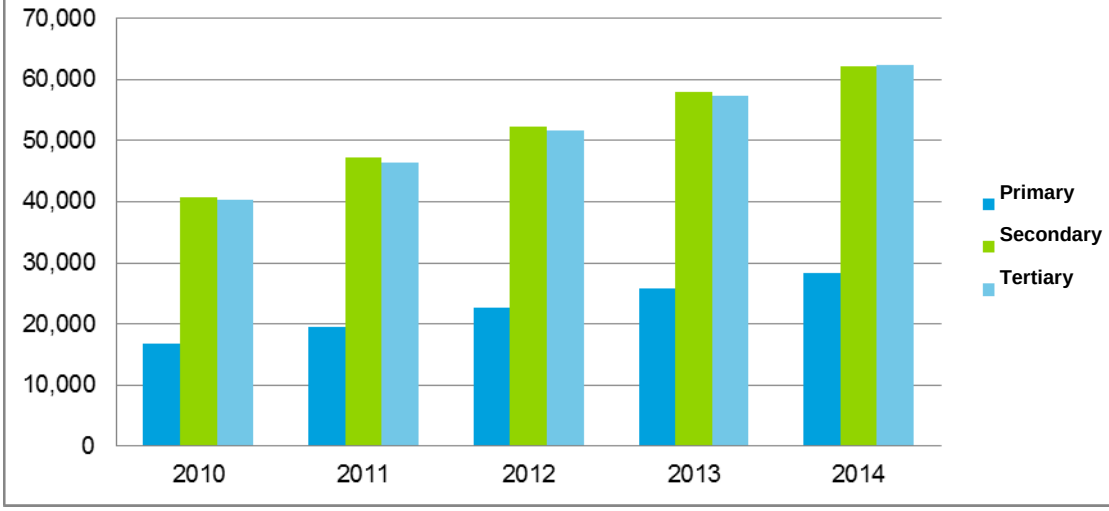
To operate in China, an enterprise mainly needs to bear two types of human resources cost, salary and social security.

2.5.4.1 Salary

According to NBS, the average annual salary of urban non-private and private sector employees are CNY 56,339 and 36,390 respectively; the average monthly salary of the basic labor force is 2,864.

- Geographically, Beijing and Shanghai have always ranked top in salary levels, followed by the Southeast coastal region. Salary level of Central and West China is relatively low.
- The average salary of the primary industry has been consistently low in recent years, at about half of the level of the secondary and tertiary industry, where the salary levels are similar.

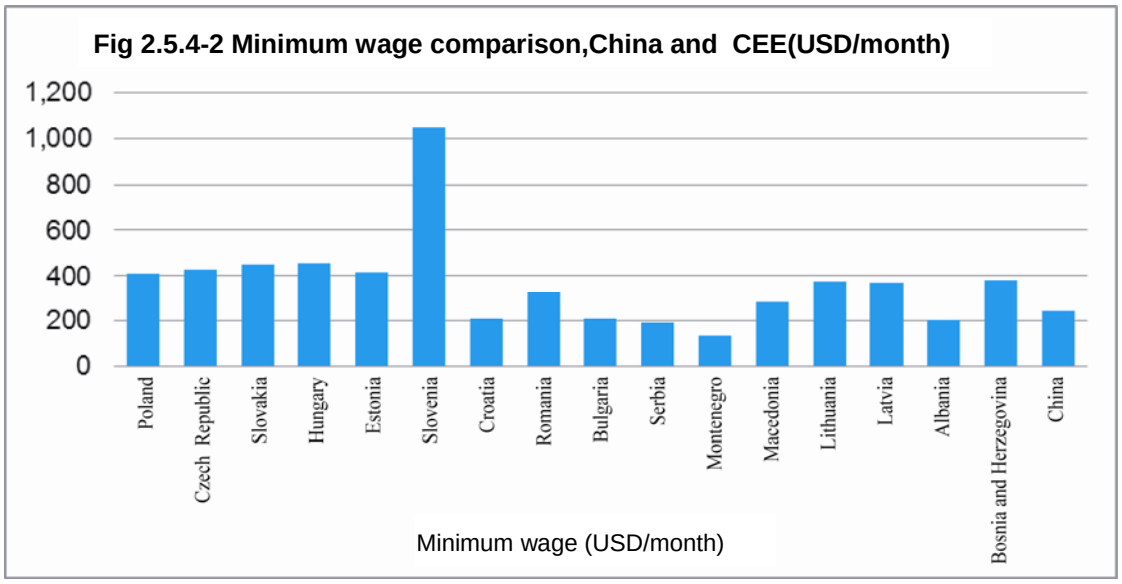
Fig. 2.5.4-1 Average annual salary in the three industries in China (CNY)



Source: NBS

- **China vs CEE salary levels**

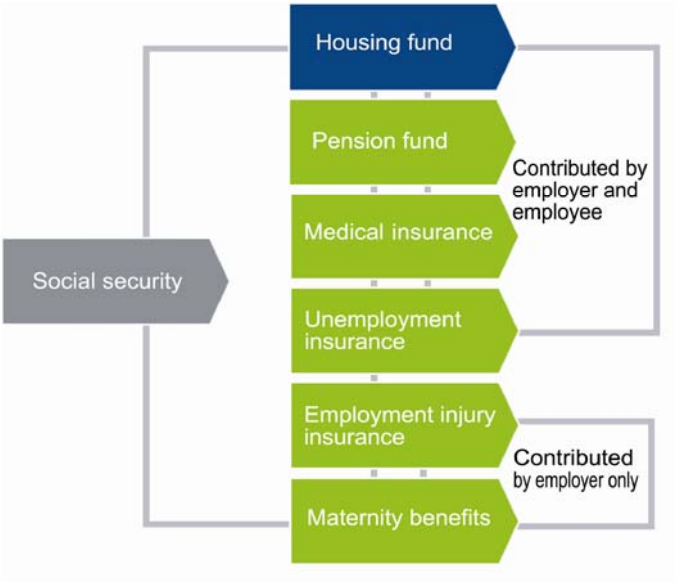
According to the 2013 World Bank survey on minimum wage in China and CEE countries, the minimum wage in China was only USD 242/month. Such low cost of human resources creates significant competitiveness.



Source: The World Bank

2.5.4.2 Social security

Employees in China are entitled to the pension fund, medical insurance, unemployment insurance, employme-nt injury insurance, maternity benefits, as well as the housing fund. The pension fund, medical insurance, unemployment insurance and housing fund are contributed by both the employer and the individual, while the employment injury insurance, matern-ity benefits are solely contributed by the employer.



- Monthly contribution =Payment base×ratio of contribution
- The payment base is the salary of the current month, but in principle it will not exceed three times of the average monthly salary of the current city in the previous month. Since salary level in China is still low, contribution of social security is also at a low level.

At present, the ratio of contribution varies across provinces. Specific numbers can be obtained from local Department of Human Resources and Social Security. Below is a partial list in 2014:

City	Pension fund （%）		Medical insurance （%）		Unemployment insurance（%）		Maternity benefits （%）	Eployment injury insurance （%）	Housing fund （%）	
	Company	Individual	Company	Individual	Company	Individual	Company	Company	Company	Individual
Beijing	20.0	8.0	10.0	2.0	1.0	0.2	0.8	1.0	12.0	12.0
Shanghai	21.0	8.0	11.0	2.0	1.5	0.5	1.0	0.5	7.0	7.0
Guangzhou	12.0	8.0	7.0	2.0	1.5	0.5	0.9	0.5	5.0-20.0	5.0-20.0
Tianjin	20.0	8.0	10.0	2.0	2.0	1.0	0.8	0.5-2.0	11.0	11.0
Hefei	20.0	8.0	8.0	2.0	1.0	1.0	0.8	0.5	5.0-20.0	5.0-20.0
Nanjing	20.0	8.0	9.0	2.0	2.0	1.0	0.8	0.5	8.0	8.0
Hangzhou	14.0	8.0	11.5	2.0	2.0	1.0	0.6	0.5-1.2	12.0	12.0
Jinan	20.0	8.0	8.0	2.0	2.0	1.0	0.8	0.5	8.0	8.0
Fuzhou	18.0	8.0	8.0	2.0	1.0	1.0	0.7	0.5-3.0	12.0	12.0
Xi’an	20.0	8.0	7.0	2.0	2.0	1.0	0.5	1.0	10.0	10.0
Taiyuan	20.0	8.0	7.0	2.0	2.0	1.0	0.5	0.6	10.0	6.0
Changsha	20.0	8.0	8.0	2.0	2.0	1.0	0.7	0.5	8.0-12.0	8.0-12.0
Chengdu	20.0	20.0	8.0	2.0	2.0	1.0	0.6	0.6	6.0-12.0	6.0-12.0

Source: Local Departments of Human Resources and Social Security

2.5.5 Human resource services

China has a large number of firms offering a complete range of human resource services. They cover all groups of job seekers and provide convenience to enterprises in recruiting. By the end of 2014, there were 25,000 such firms in China, providing services in recruiting, training, consulting and human resource outsourcing to 2,211 employers and helping 120 million people find jobs.

The services provided by these firms include hosting job fairs and providing information, headhunting, examination and evaluation, recruiting, online service, human resource outsourcing, employee file management, talent dispatch and training. They serve as a bridge between employers and employees.

The Ministry of Human Resources and Social Security (MOHRSS) has adopted policies to reduce barriers for market access in the human resource market.

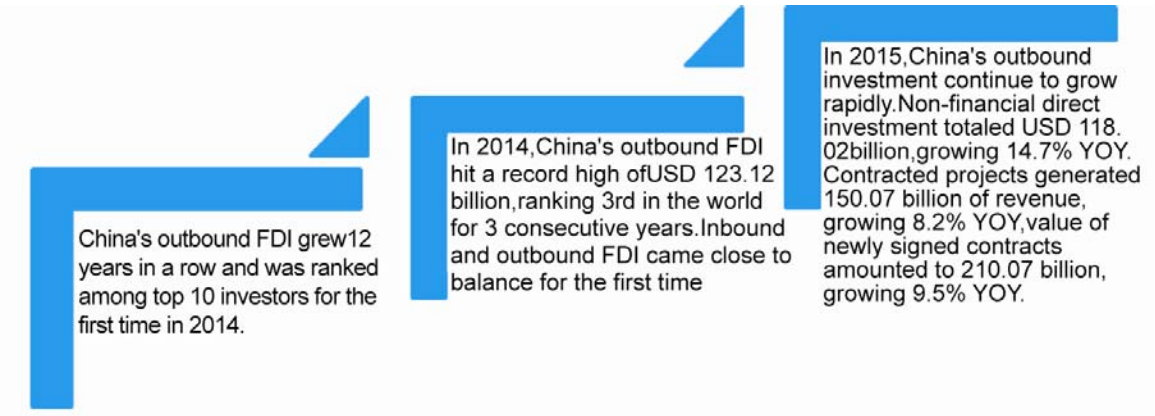
- By the end of 2014, MOHRSS conducted pilot projects in Shanghai, Guangdong, Tianjin and Fujian FTZs and Zhongguancun Science Park to relax restrictions on foreign investment in the human resource market.
- Shanghai Pudong New Area has started the pilot reform for equity joint ventures of human resource firms. Foreign investors are permitted to hold up to 70% of stake in such joint ventures.
- In the Zhongguancun Science Park, foreign investors are also permitted to hold up to 70% of stake in joint ventures. A minimum registered capital requirement is lowered to USD 125,000.

Chapter Three
China’s Outbound Investment

I. Overview of China’s Outbound Investment

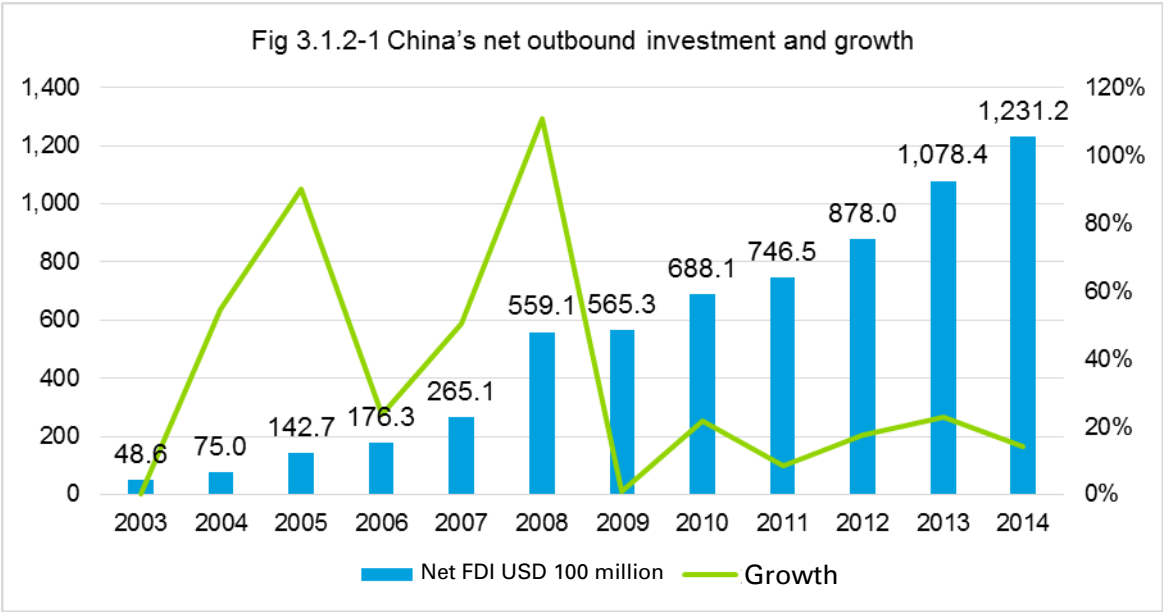
3.1.1 Chinese enterprises “Going out”

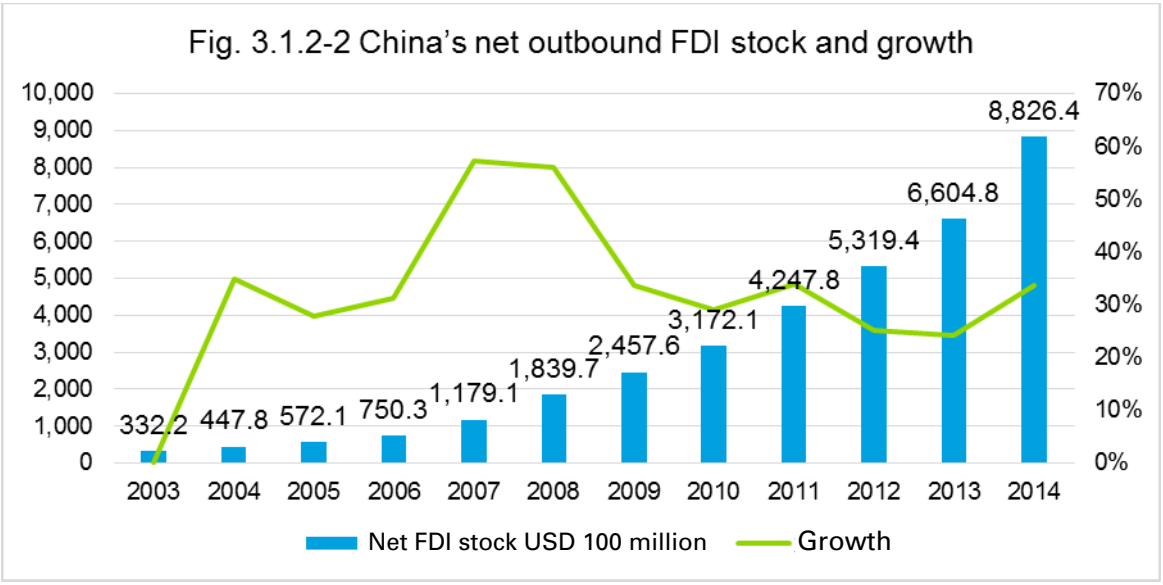
Since 2003, outbound investment from Chinese companies embarked on a path of sustained growth. Initially it was driven purely by acquisition of energy sources and expansion in sales channels. Gradually the drivers became more diversified, including gaining access to best practices, building production lines overseas, acquiring brands with competitive edges, and achieving synergies. The “Going out” also took multiple forms, such as green field investment, mergers & acquisitions (M&As) and joint ventures. The Belt and Road Initiative will usher in a golden age of “Going out” for Chinese enterprises.



3.1.2 Overview of China’s outbound FDI

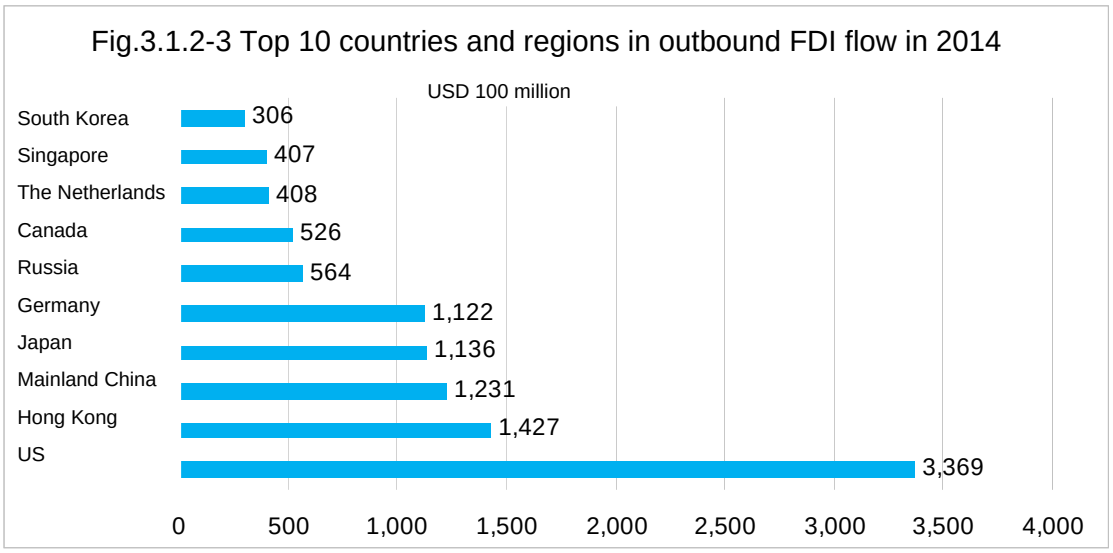
In 2014, against a backdrop of slowing industrial production and trade, sustained volatility in the global financial markets and correction in the world economic growth, FDI stood out as an area of relative vitality. In 2014, China’s outbound FDI continued to growing rapidly, hitting a record high of USD 123.12 billion, growing 14.2% YOY. Since 2003, when China started to publish outbound FDI statistics, it has achieved positive growth for 12 consecutive years. The value in 2014 was 45.6 times of that in 2002, with average annual growth of 37.5% during this period. In 2014, the difference between China’s outbound and inbound investment was only USD 5.38 billion, getting close to equilibrium for the first time in history.

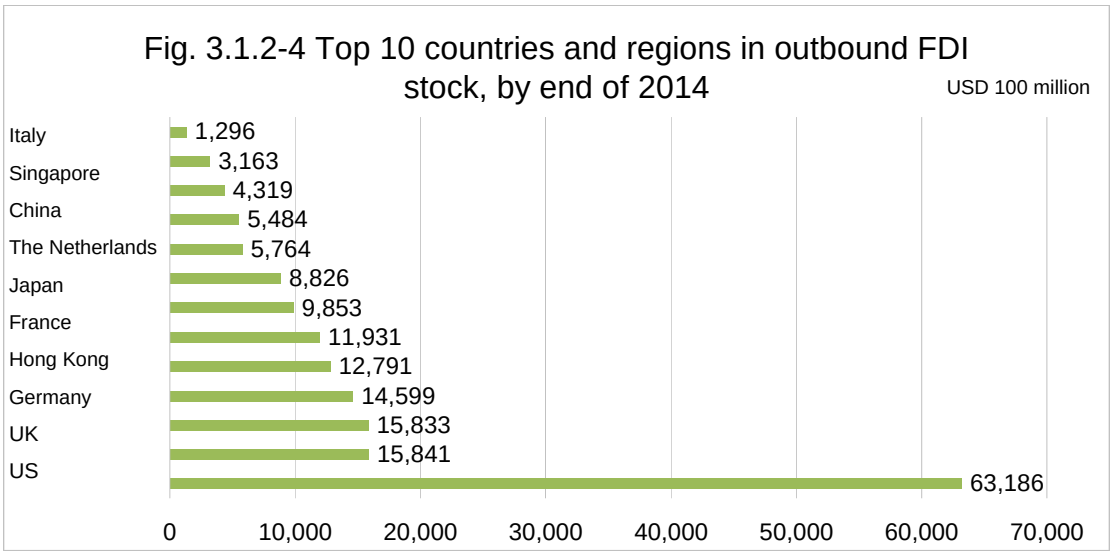




Source: 2015 Statistical Bulletin of China's Outward Foreign Direct Investment

According to the UNCTAD World Investment Report 2015, total FDI outflows in 2014 amounted to USD 1.35 trillion, at year-end FDI stock was 25.87 trillion. Based on this figure, China's outbound FDI accounted for 8.6% of total world FDI flow that year; by the end of 2014, share of China's FDI stock in the world total grew from 0.4% in 2002 to 3.4%, ranking 8th among all countries and regions, up 3 seats from 2013 and joined the top 10 for the first time.





Source: 2014 China's outbound investment data from 2014 Statistical Bulletin of China's Outward Foreign Direct Investment; data for other countries (regions) from UNCTAD World Investment Report 2015

3.1.3 Destinations of China's outbound FDI

As of the end of 2014, China's outbound FDI stock was distributed in 186 countries and regions, or 79.8% of total number of countries and regions in the world. USD 600.97 billion (68.1%) and 106.11 billion (12%) went into Asia and Latin America, which ranked top 2 in size and share. Europe and North America received 69.4 billion (7.9%) and 47.95 billion (5.4%) respectively, ranking 3rd and 4th.

Fig.3.1.3-1 China's outbound FDI stock by destination, 2003-2014

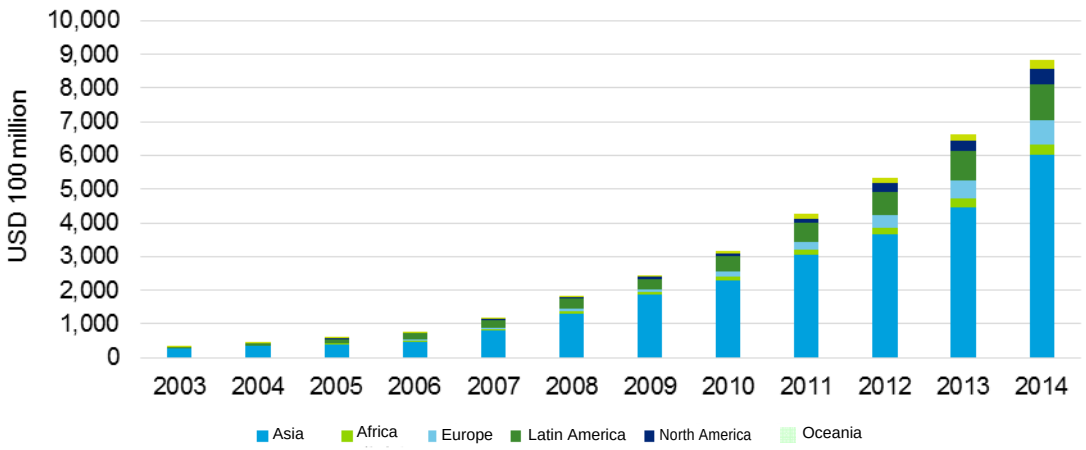
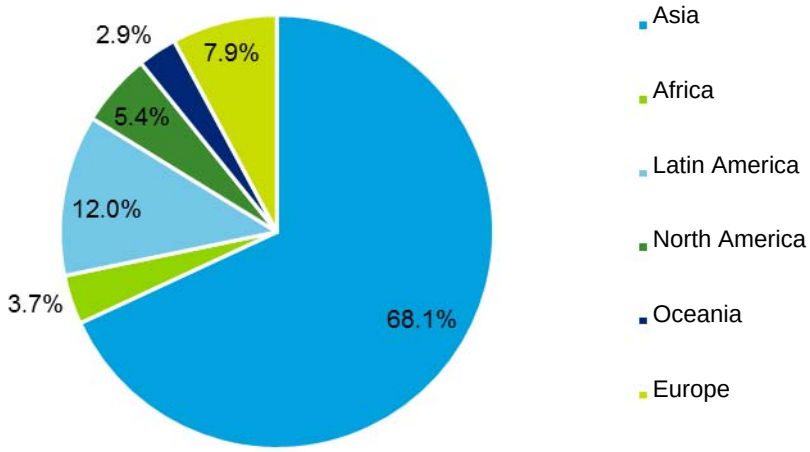


Fig. 3.1.3-2 China's outbound FDI stock by destination, by end of 2014



Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment

Top 10 destinations of China's stock FDI by 2014 by region

Region	FDI stock	Share of total	Main destinations
Asia	USD 600.97 billion	68.1%	More than 10 countries and regions, including Hong Kong, Singapore, Kazakhstan and Indonesia. FDI stock in Hong Kong accounts for 84.8% of the Asia total.
Latin America	USD 106.11 billion	12%	More than 10 countries and regions, including British Virgin Islands, Cayman Islands, Brazil, Venezuela, Argentina, Trinidad and Tobago and Ecuador. FDI stock in British Virgin Islands and Cayman Islands account for 88.2% of the regional total.

Region	FDI stock	Share of total	Main destinations
Europe	USD 69.4 billion	7.9%	Luxemburg, the UK, Russia, France, Germany, Norway, the Netherlands, Sweden and Italy.
North America	USD 47.95 billion	5.4%	Mainly in the US and Canada.
Africa	USD 32.35 billion	3.7%	More than 10 countries, including South Africa, Zambia, Algeria, Democratic Republic of Congo, Sudan, Angola, Zimbabwe and Ghana.
Oceania	USD 25.86 billion	2.9%	Australia, New Zealand, Papua New Guinea, Samoa, Fiji and Marshall Islands .

Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment.

Top 10 countries and regions by China's FDI stock in 2014

Country/region	FDI stock	Share of total
Hong Kong	5,099.2	57.8%
British Virgin Islands	493.2	5.6%
Cayman Islands	442.4	5.0%
US	380.1	4.3%
Australia	238.8	2.7%
Singapore	206.4	2.3%
UK	128.0	1.5%
Russia	86.9	1.0%
France	84.4	1.0%
Canada	77.9	0.9%

China's outbound FDI flow in 2014 had the following geographical trends:

- Developed economy became a hot spot for FDI flow. China's FDI in the EU, the US and Australia all hit record highs. Developed nations became the most popular market with Chinese enterprises. In 2014, China's FDI flow to developed economies reached USD 23.83 billion, surging 72.3% YOY;
- China's outbound FDI flow was highly concentrated, with close to 70% going to Hong Kong, British Virgin Islands, Cayman Islands and Luxemburg (totalling USD 84.207 billion, growing by 10% YOY and accounting for 68.4% of 2014 total). One of the reasons was that many companies chose to set up commercial service enterprises in these countries and regions and in turn initiate M&As through these entities.
- While in 2013 China's outbound FDI in Latin America and Africa grew (Latin America received total of USD 14.36 billion, growing dramatically by 132.7% YOY; FDI in Africa also grew by almost 34%), in 2014 the FDI flow to these regions declined (Latin America received 10.54 billion, down by 26.6% YOY; Africa received 3.2 billion, down by 5% YOY). In comparison, FDI flows to other regions all grew at double digits (see below).

Fig. 3.1.3-3 China's outbound FDI flow by destination and growth, 2004-2014

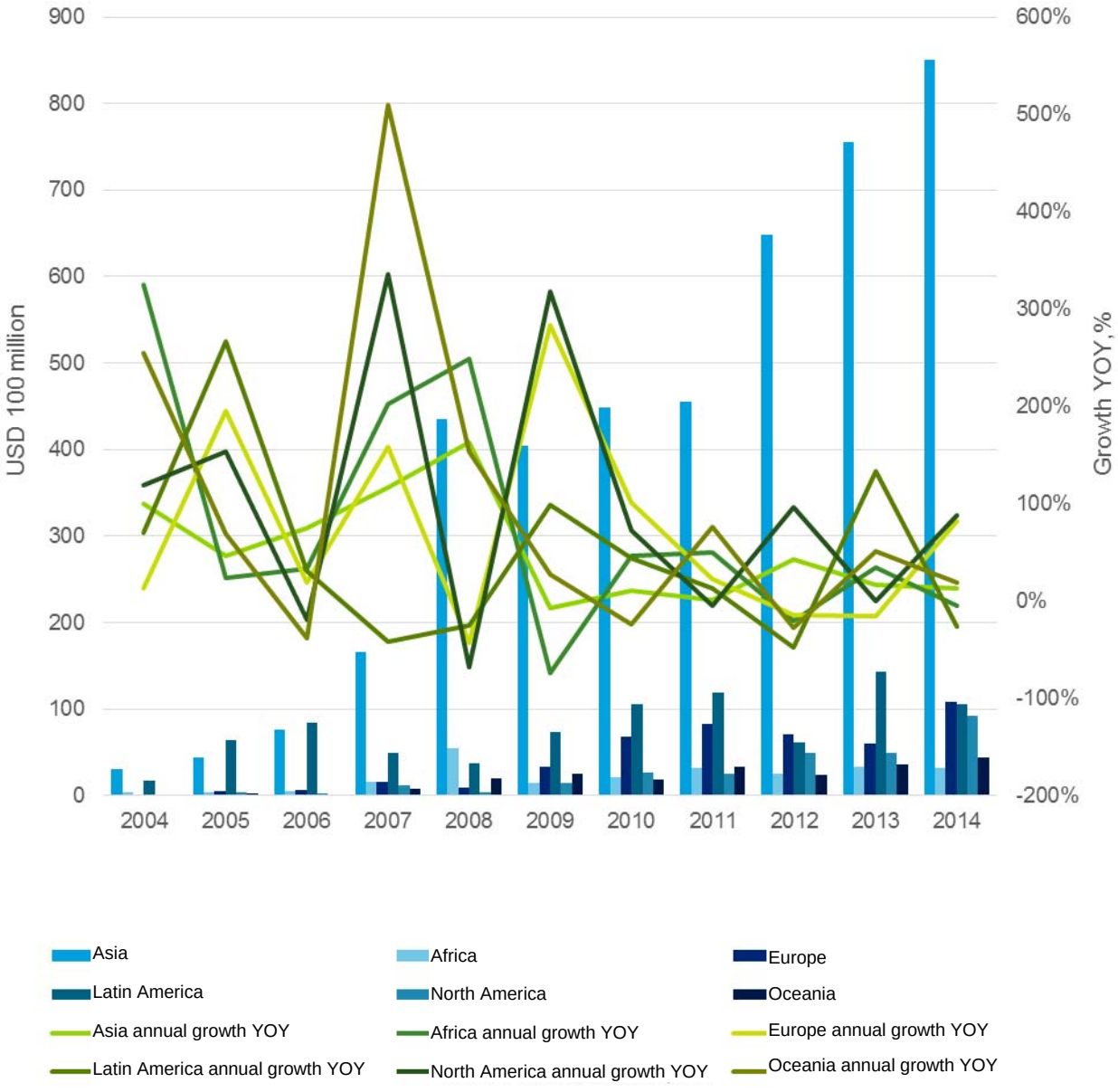
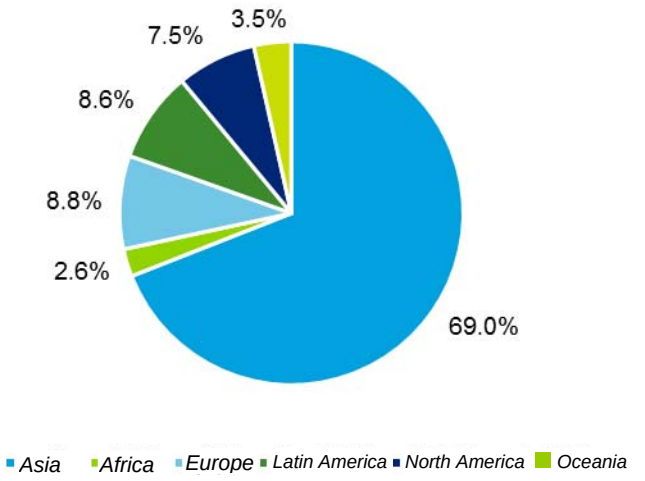


Fig. 3.1.3-4 China's outbound FDI flow by destination, 2014



Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment.

Asia Africa Europe Latin America North America

Top 10 countries and regions by China's FDI flow in 2014

Country/region	FDI flow	Share of total
Hong Kong	708.67	57.6%
US	75.96	6.2%
Luxemburg	45.78	3.7%
British Virgin Islands	45.70	3.7%
Cayman Islands	41.92	3.4%
Australia	40.49	3.3%
Singapore	28.14	2.3%
UK	14.99	1.2%
Germany	14.39	1.2%
Indonesia	12.72	1.0%
Total	1028.76	83.6%

Source: NBS and 2014 Statistical Bulletin of China's Outward Foreign Direct Investment.

3.1.4 China's outbound FDI by industry

By the end of 2014, China's outbound FDI covered every type of industry. FDI stock from leasing and commercial services, financial services, mining, wholesale and retail and manufacturing industries totaled USD 73.91 billion, accounting for 83.7% of total FDI stock.

According to 2014 statistics, the tertiary industry ranked top in YOY growth and share of total flow. Total FDI flow reached USD 90.42 billion, growing 28.7% YOY and accounting for 73.4% of total. While FDI into the primary industry grew 26.2% YOY, but it had a smaller size (1.59 billion), just 1.3% of the total flow. FDI into the secondary industry reached 31.11 billion, down by 14.4% and accounting for 25.3% of total investment.

By the end of 2014, the distribution of FDI stock by these three industries was generally consistent with the FDI flow distribution in 2014. The tertiary industry received USD 661.65 billion, or 75% of total;

the secondary industry received 213.23 billion, or 24%; the primary industry (agriculture/forestry/animal husbandry/fishery, excluding the service sector for these industries) received 7.76 billion, 1% of total stock.

Specifically:

- FDI flow in leasing and commercial services reached USD 36.83 billion, growing 36.1% YOY and accounting for 29.9% of the annual total. By the end of 2014, this industry ranked top with 322.44 billion of FDI stock, accounting for 36.5% of total outbound FDI stock. The main purpose of investment in this industry is to gain control;
- In 2014 FDI flow to the financial services industry reached USD 15.92 billion, growing 5.4% YOY and accounting for 12.9% of the annual total. In terms of FDI stock, the financial services industry ranked 2nd, only next to leasing and commercial services, reaching 137.62 billion and accounting for 15.6% of the total;
- While FDI flow to the mining industry (excluding mining auxiliary activities) declined by 33.3% YOY (USD 16.55 billion), overall speaking the FDI stock at the end of 2014 totaled 123.73 billion, accounting for 14% of the total and ranking 3rd among all industries;
- The retail and wholesale industry received 14.9% of total FDI flow in 2014, reaching USD 18.29 billion and growing 24.8% YOY. By the end of 2014, this industry received total FDI stock of 102.96 billion, or 11.7% of the total, ranking 4th among all industries. Other sub-sectors under the tertiary industry that account for high shares of FDI stock include transportation, warehousing and real estate. The information transmission, software and information technology services industry accounted a small share (2.6%) in total 2014 FDI flow, but grew 126.4% YOY (3.17 billion);
- FDI into manufacturing experienced negative growth in 2013. In 2014 FDI flow reached USD 9.58 billion, growing 33.1%. By the end of 2014, FDI stock was 52.35 billion, accounting for 5.9% of the total. The investments are mainly focused on chemical material and chemical products manufacturing, computer/communications and other electronics manufacturing, specialized equipment manufacturing, auto manufacturing, textiles, pharmaceuticals, electrical machinery and device manufacturing, metal smelting and processing, rubber and plastic products, and food processing;
- In the top 10 industries by FDI flow, construction also had negative growth, like mining. FDI flow was USD 3.4 billion, down by 22% YOY. By the end of 2014 FDI stock in the industry was 22.58 billion, ranking 8th among all industries.

Fig. 3.1.4-1 China's net outbound FDI flow by industry, 2014 (Top 10)

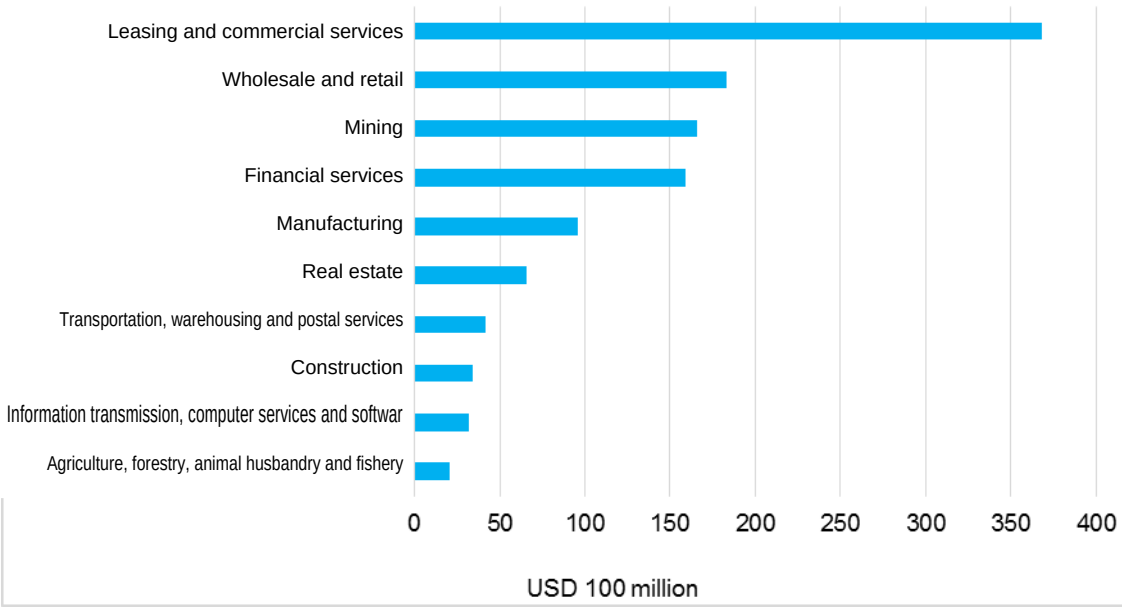
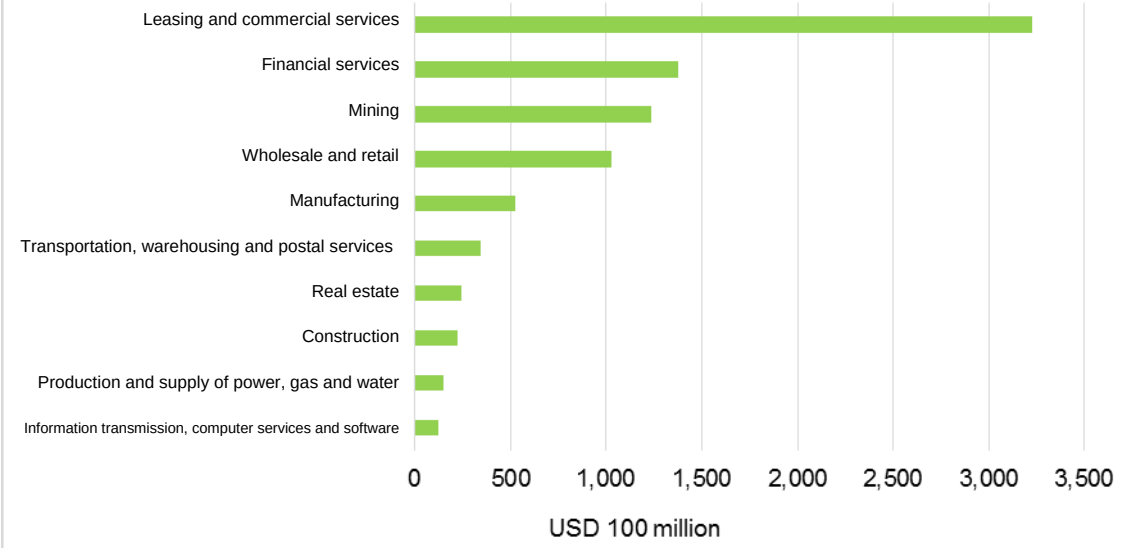


Fig. 3.1.4-2 China's net outbound FDI stock by industry, by end of 2014 (Top 10)



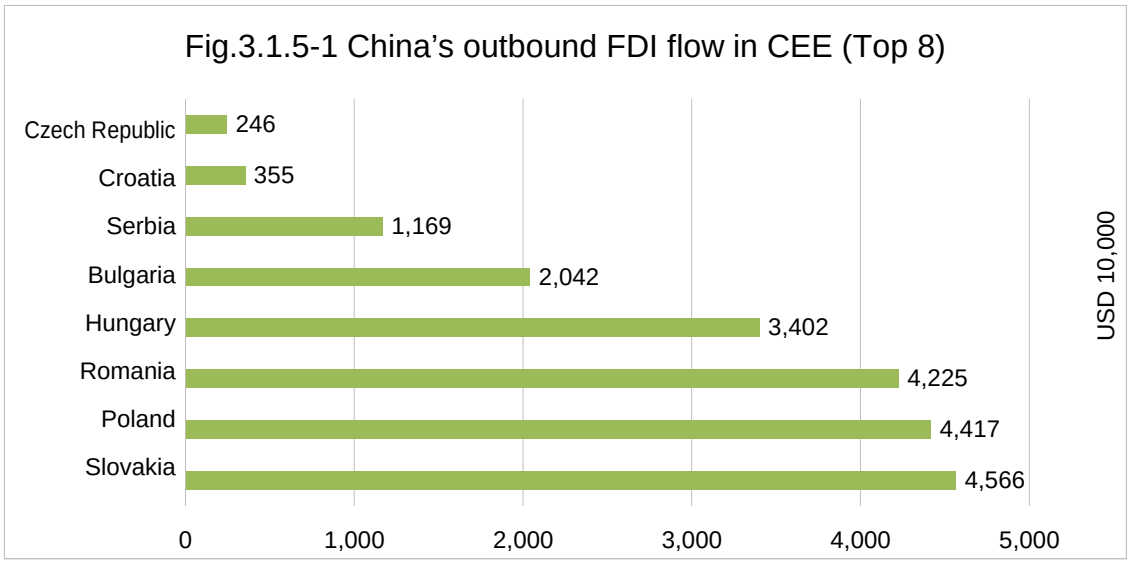
Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment.

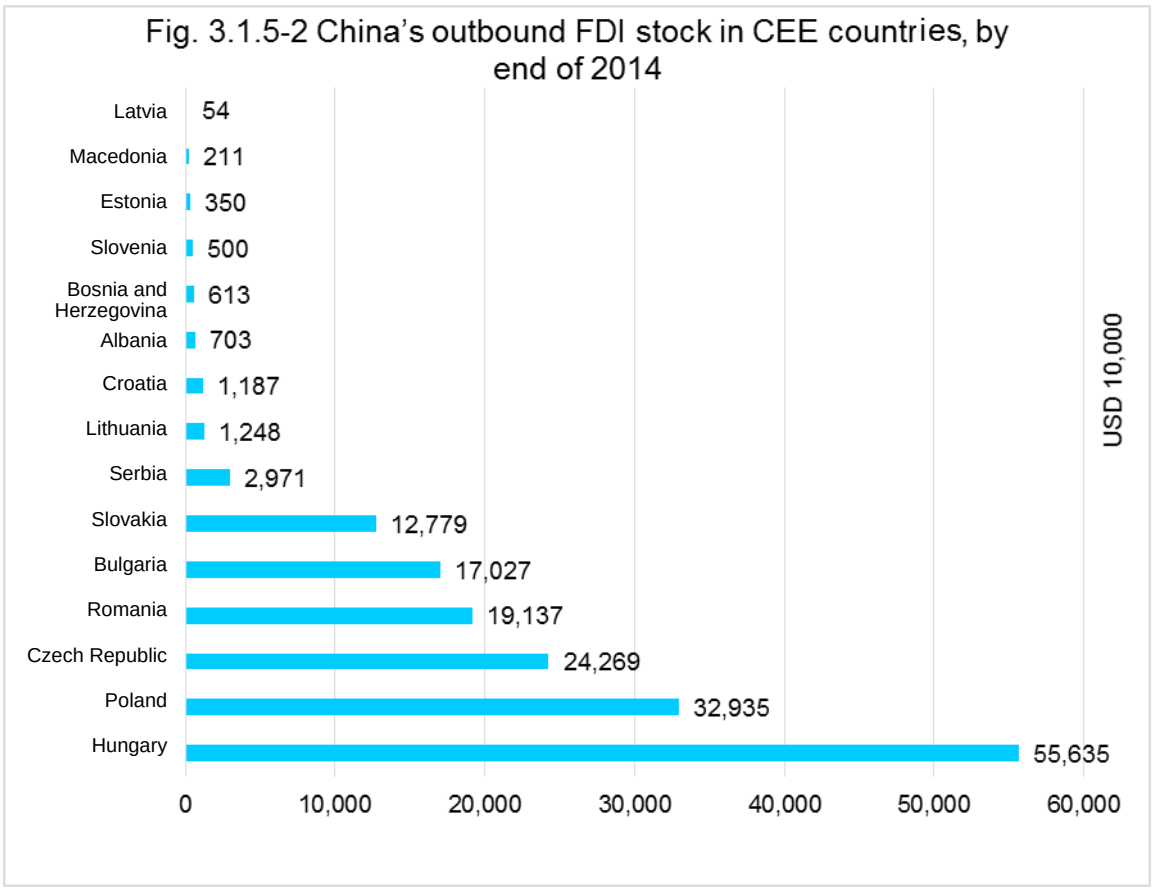
Geographically, the industries receiving FDI from China are highly concentrated. By the end of 2014, top five industries in FDI stock in each continent are:

Region	Industry	FDI stock (USD 00 million)	Share（%）
Asia	Leasing and commercial services	2,408.2	40.1
	Wholesale and retail	812.9	13.5
	Financial services	809.6	13.5
	Mining	742.7	12.4
	Transportation, warehousing and postal services	283.5	4.7
	Subtotal	5,056.9	84.2
Africa	Construction	79.8	24.7
	Mining	79.2	24.5
	Financial services	53.2	16.4
	Manufacturing	44.1	13.6
	Research and technical services	13.5	4.2
	Subtotal	269.8	83.4
Europe	Leasing and commercial services	161.8	23.3
	Financial services	137.5	19.8
	Manufacturing	117.2	16.9
	Mining	107.9	15.5
	Wholesale and retail	54.7	7.9
	Subtotal	579.1	83.4
Latin America	Leasing and commercial services	605.0	57.0
	Financial services	194.1	18.3
	Wholesale and retail	84.4	8.0
	Mining	54.3	5.1
	Transportation, warehousing and postal services	34.5	3.2
	Subtotal	972.3	91.6
North America	Financial services	162.6	33.9
	Mining	83.8	17.5
	Manufacturing	71.7	15.0
	Leasing and commercial services	31.6	6.6
	Real estate	31.2	6.5
	Subtotal	380.9	79.5
Oceania	Mining	169.4	65.5
	Financial services	19.3	7.5
	Real estate	18.5	7.2
	Agriculture, forestry, animal husbandry and fishery	10.7	4.1
	Manufacturing	9.5	3.7
	Subtotal	227.4	88.0

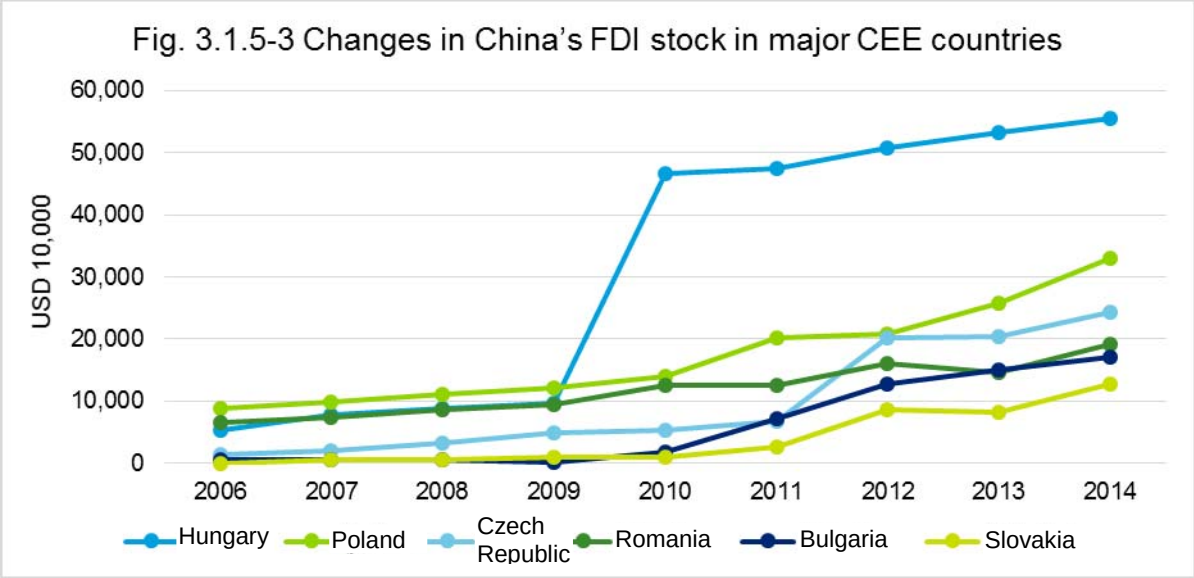
3.1.5 China’s investment in CEE countries

By the end of 2014, 6 CEE countries attracted more than USD 100 million of FDI stock from China. They are Hungary, Poland, the Czech Republic, Bulgaria and Slovakia (in order of FDI stock size). With the exception of the Czech Republic, the other 5 countries also ranked top 5 among CEE countries in FDI flow from China, each attracting more than 20 million. Slovakia ranked top with 45.66 million.





Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment.

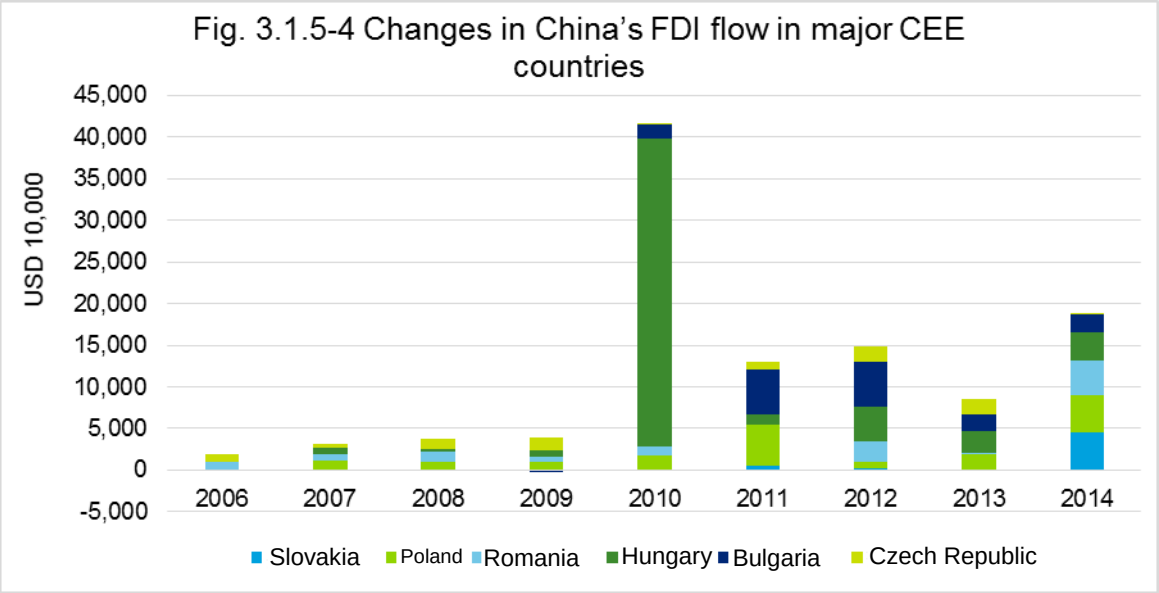


Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment.

Chinese enterprises had very specific targets when investing in these 6 countries. For example, China Road and Bridge Corporation focused on infrastructure projects, Huawei and ZTE on ICT, Wanhua Industrial Group on the chemical industry, and Liugong Machinery on machinery manufacturing. Among the 6 countries, Hungary attracted the highest investment in these areas from China.

Bank of China, Huawei, ZTE and Wanhua are among the largest Chinese investors in Hungary. In 2012, however, Bulgaria surpassed Hungary in FDI flow.

Poland is another major destination for China's outbound FDI. It is the only EU country that has seen GDP growth for 20 consecutive years. In 2011, China and Poland established a strategic partnership. China's FDI in Poland mainly target electronics (television sets and monitors), the electromechanical industry, IT and construction machinery. Major investors include the TCL Group, Digital View, Nuctech, ZTE, Huawei and Liugong Machinery. In 2013, the railway connecting Chengdu with Lodz went into service. It is part of the China-Europe railway.



Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment.

While China's investment in the Czech Republic fell in 2014, it enjoyed growth between 2007 and 2009, and between 2011 and 2013. At present, Chinese enterprises investing in the Czech Republic include: ZTE, Huawei, Changhong Group (TV sets), Noark (electronic components), Yuncheng Plate Making Group (gravure printing), Shandong Linyi Yuli Foodnuts and Beijing Fight Company (crystal glass).

In Bulgaria, in addition to auto manufacturing, China also partners with Bulgaria in emerging industries such as chemical, energy, agriculture and food processing. At the same time, Bulgaria is fully prepared to embrace Chinese tourists and investors.

In the first few years of the 21st century, Romania was a preferred destination for Chinese investment. In 2005, Romania was the largest recipient of Chinese investment, accounting for more than two thirds of FDI stock in the 6 CEE countries. Among these countries, Romania had been the most successful market for China's "Going out" strategy, with exceptional outcomes in infrastructure and high-tech. In recent years, however, the share of FDI stock in Romania of the 6-country total was declining. China was shifting its investments towards Poland, the Czech Republic, Hungary and other CEE countries.

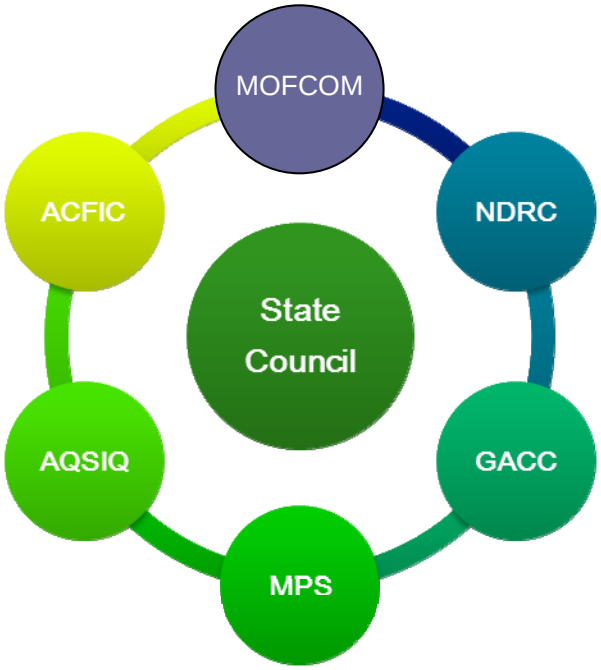
II. China's Outbound Investment Policy

The 3rd Plenary Session of the 18th CPC Central Committee decided to "encourage outbound investment by enterprises and individuals, establishing enterprises and individuals as investment subjects", and made it clear to "reform the approval mechanism for outbound investment, improve the consular protection system and offer more services in safeguarding rights and interests, investment promotion and risk warning". As the "service-based governance" philosophy becomes more pervasive, the new service-based "three-in-one" system, linking the central government, local government and intermediary organization, will become increasingly sophisticated. The central government will strengthen its capabilities in providing public services, further facilitate investment, better coordinate policies, and improve bilateral and multilateral investment promotion mechanisms. The outbound investment environment will become fairer, more stable and more transparent.[3]

3.2.1 Facilitation of outbound investment

3.2.1.1 Streamlining process and deregulation

To facilitate outbound investment and lay a policy foundation for enterprises "Going out", the State Council and six related departments have launched a series of favorable policies in recent years.



- **Macro-policy documents by the State Council**

  a) On July 1 2013, the General Office of the State Council issued the Guiding Opinions of on the Financial Support for Economic Restructuring, Transformation and Upgrading, to encourage policy banks and commercial banks to support companies go global. The focus was on trade and investment facilitation, cross-border use of Renminbi, deregulation in forex administration and further improving forex regime in trade in goods and services. 。

  b) On Mar 7, 2014, the State Council issued the Opinions on Further Optimizing the Market Environment for Mergers and Reorganizations of Enterprises, addressing challenges in the approval process, financing, underdeveloped service offerings, incomplete mechanisms, and

[3] Report on China's Outward Investment and Economic Cooperation 2014

cross-region and cross-ownership M&As. The Opinions demanded that forex administration for overseas M&As be streamlined to further facilitate investment; the ex ante reporting procedures for overseas M&As be optimized to speed up the approval process.

c) On October 31 the State Council issued the Catalogue of Investment Projects Subject to Government Approval (2014 version) and repealed the Notice on Issuing the Catalogue of Investment Projects Subject to Governmental Approval (2013 Version). In the articles concerning overseas investment, it is stipulated that projects involving sensitive countries, regions or industries should be approved by investment authorities in the State Council. Other than that, investment projects by central SOEs and investment projects over USD 300 million by local enterprises should be reported to investment authorities in the State Council for filing.

- **Policies of other departments**

Department	Policy
MOFCOM	**Administrative Measures on Overseas Investments** a) Establishing an administrative model based mainly on filing and supported by approval. Overseas investment involving sensitive countries (countries without diplomatic relations or under sanctions of the United Nations) and sensitive industries (government restrictions on export, affecting rights of third party) must be approved. Other projects will go through the filing procedures. Cap on investment and related approval is repealed. b) Delegating administrative power to clear the path for enterprises. Enterprises can make filing with local provincial department of commerce, who in turn will report for approval from MOFCOM. Central SOEs report directly to MOFCOM for filing or approval. c) Reducing the time for filing and approval. For approvals, the central SOEs will need 20 days and local enterprises 15 days. Only 3 days is needed for filings. d) After the new Administrative Measures on Overseas Investments goes into enforce, MOFCOM will see a reduction of 98.5% in its approvals. e) Streamlining the filing procedure. Enterprises only need to fill in the Overseas Investment Filing Form with complete and accurate information and submit to the MOFCOM or local department of commerce. Within three business days the Enterprise Overseas Investment Certificate will be issued. Comparing with the approval process, the filing procedure is much more efficient. It will help enterprises to seize opportunities and gain higher returns.
NDRC	**Administrative Measures on Approval and Filing for Outbound Investment Projects** a) Significantly relaxing approval requirements on overseas investment projects. No separation of resource and non-resource projects. Only projects involving sensitive countries or regions, or sensitive industries, or with over USD 1 billion investment, must be approved. Other projects will all go through filing.

Department	Policy
	b) Further streamlining procedures and giving out clear timelines to ensure consistency and convenience. For projects that need approval by NDRC or State Council, or projects need filing with NDRC, the local enterprise can submit application to the local provincial development and reform department, who will report to NDRC for approval. Local enterprises no longer need to file application with all levels of governments. The timelines of approval and filing are clearly defined and the conditions simplified. c) Creating the National Overseas Investment Project Online Filing System, which is up and running. The projects that should go through the filing process can be processed online, offering further convenience.
General Administration of Customs of China (GACC)	a) Strengthening bilateral and multilateral customs cooperation to support the building and improvement of bilateral, multilateral and regional trade and investment cooperation mechanisms. To date, GACC has built ties with 129 countries and regions, signed 134 agreements (34 inter-governmental and 100 inter-departmental), covering 73 countries and regions. GACC strives to improve the communication mechanism among customs based on mutual recognition, mutual support in enforcement and exchanging information, in an effort to facilitate trade and improve the outbound investment environment. b) Taking into consideration key concerns of enterprises to identify more stakeholders and potential area for customs collaboration, such as trade legislation, supervision and enforcement and duties and fees. GACC will proactively participate in multilateral and regional customs collaborations to make comments and suggestions that will facilitate outbound investment of Chinese enterprises. Through the international rule-setting process, GACC will encourage foreign parties to improve legislation and policies to increase efficiency in customs clearance.。
General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)	a) In 2013, 391 exporters obtained fast track status in quality supervision and quarantine, after reviewed by local department of quality supervision, inspection and quarantine and approved by AQSIQ. This will facilitate the customs clearance process for these exporters.
All-China Federation of Industry & Commerce (ACFIC)	a) ACFIC has set up a permanent work mechanism with MOFCOM to encourage outbound investment by private enterprise. They will strengthen collaboration to develop a three-tier service network at national, provincial and county level. Since 2013, ACFIC continued to expand its service and set up overseas points of contact.
Ministry of Public Security (MPS)	a) The national system of exit and entry administration continues to improve its service level to create a safe and convenient experience for users.

3.2.1.2 QDII and QDII2

In the context of a capital account that is not fully liberalized, in July 2007 the CSRC released the Administration of Qualified Domestic Institutional Investors in Foreign Securities Investments Trial Procedures, allowing qualified domestic institutional investors to raise funds in China and make portfolio investments overseas. This move signaled that QDII become a standard arrangement in China. According to the QDII Quota Approval Report by SAFE, as of August 28, 2015, total approved QDII quota reached USD 89.993 billion.

On May 8, 2015, the State Council approved and relayed the Opinions of the NDRC on Key Work for Deepening the Reform of the Economic System in 2015. It stated that QDII2 will be launched at the right timing and the first six pilot cities are Shanghai, Tianjin, Chongqing, Wuhan, Shenzhen and Wenzhou. The launch of QDII2 will be another new initiative to liberalize China's capital market, marking the beginning of private capital going global.

3.2.2 Reinforcing public services

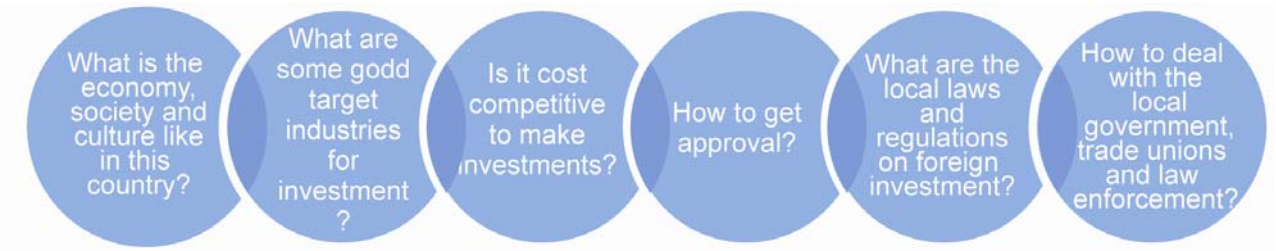
According to the spirit of the 18th National Congress of the CPC and the 3rd Plenary Session of the 18th CPC Central Committee, government agencies should provide macro-guidance and services to enterprises going global by conducting country- and industry-specific research into global investment demands, offering accurate information on outbound investment and streamlining approval processes. Only by making continuous progress in the "Going out" drive can China improve its capabilities to allocation resources on a worldwide basis and transform itself from a large trading nation to a strong trading nation, and from a large receiver of investment to a large exporter of investment.

3.2.2.1 Country–specific guidance and report on investment and cooperation

- **Country (region)-specific Guidelines on Outbound Investment**

In order to protect the rights and interests of enterprises going global and provide services such as investment promotion and risk warning, the Chinese Academy of International Trade and Economic Cooperation (CAITEC), China Investment Promotion Agency (CIPA) and Chinese missions overseas started in 2009 to publish and update the Country (region)-specific Guidelines on Outbound Investment. As of today, they

➢ ***By reading the Guidelines, you will know***



cover 166 countries and regions (including most of the 16 CEE countries). The guidelines give objective accounts of the business environment, policies on land and labor, and risks in specific countries (regions), and provide reminders on key issues in cross-border operations.[4] The Guidelines can be accessed on the China Investment Guidelines website.

- Report on Development of China's Outward Investment and Economic Cooperation
- MOFCOM started to compile the Report on Development of China's Outward Investment and Economic Cooperation in 2010. To data the Report has become an integral part of the outbound investment service system. In the latest publication, the Report on Development of China's Outward Investment and Economic Cooperation 2014 used the theme of "safety and efficiency". It described trends in outbound investment, relevant policies and measures and current investment landscape in target markets and in typical provinces. Also it added sections on industry development of case studies of some enterprises for reference.[5]

Each year the Report is updated and released on a MOFCOM website, offering detailed information for enterprises making outbound investment.[6]

- **Public information platform in the internet age**

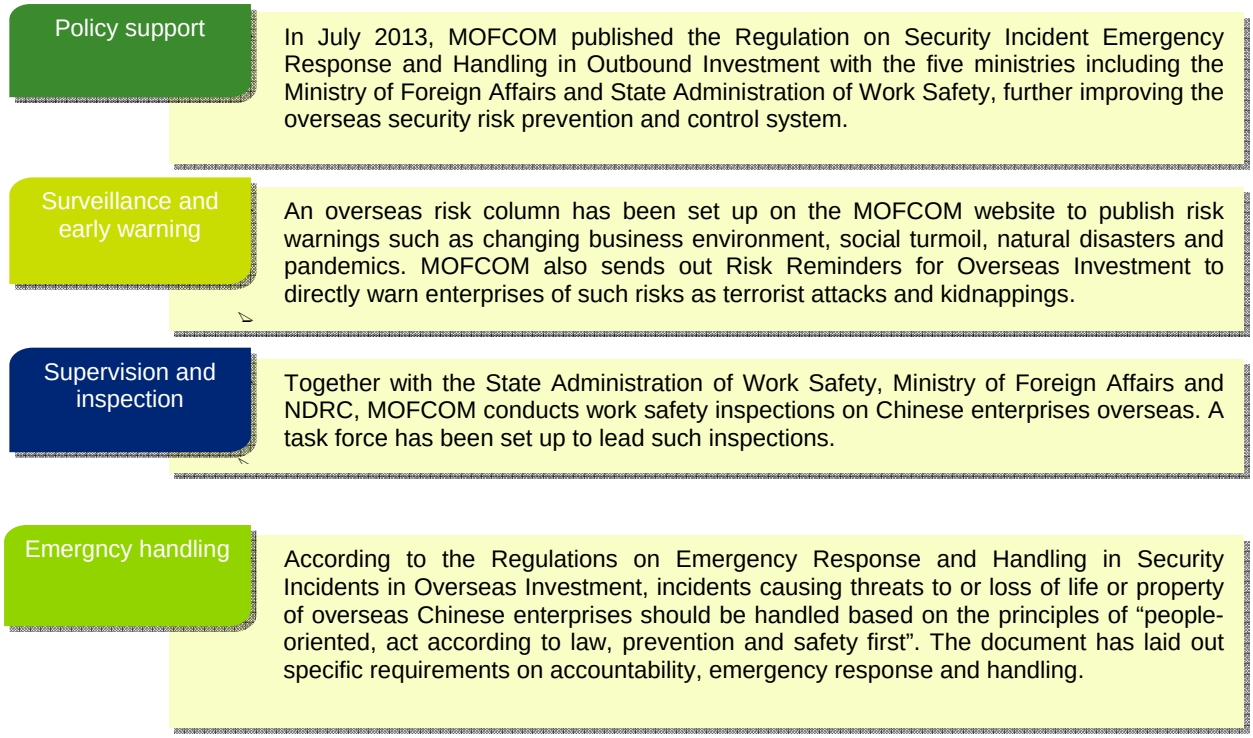
MOFCOM and other outbound investment-related departments have all set up their online public information platforms. By visiting these platforms one can access information on policies, laws and top news of foreign trade. Applications and approvals can also be submitted and processed on similar government platforms.

Some platforms are:

3.2.3 Strengthening risk mitigation and protection

Since 2013, the political, economic and security situations in the world have become increasingly complex. As more Chinese enterprises choose to "go out", the external risks and challenges are also on the rise. To address this complexity and protect the safety of enterprises and personnel, MOFCOM has worked with other departments to take a number of measures to collect information and feedback from local commerce departments, enterprises, trade associations and Chinese missions overseas. By doing so MOFCOM aims to provide quick response to any emergencies.

[4] Country(region)-specific Guidelines on Outbound Investment (2014), http://fec.mofcom.gov.cn/gbzn/guobiezhinan.shtml?COLLCC=3113211709&, visited on Sep 1, 2015。
[5] MOFCOM, Report on Development of China's Outward Investment and Economic Cooperation 2014
[6] Report on Development of China's Outward Investment and Economic Cooperation,http:// fec.mofcom.gov.cn/channel/fzbg.shtml, visited on Sep 1, 2015.



3.2.3.1 Information collection and surveillance

- **Reporting requirements for "Going out"**

Local commerce departments, central SOEs, Trade Development Bureau of MOFCOM (Center for Complaint Handling for Chinese Enterprises Operating Overseas), China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME), China International Contractors Association (CHINCA), China International Chamber of Commerce for the Private Sector (CICCPS), Chinese mission overseas, chambers of commerce (trade associations) of Chinese enterprises overseas are charged with the responsibility of making reports. They should, in accordance with the MOFCOM Notice on Reinforcing Information Reporting for "Going out", collect information and report at least twice a year to MOFCOM. The report should cover challenges during "Going out", feedback and suggestions, and important and breaking news. MOFCOM will consolidate reports from all stakeholders and make regular reports to the State Council and other relevant departments.[7]

- **Statistics**

To monitor investment, operations and company performance, various statistical regulations have been developed. Outlined below are three important pieces of statistical regulation. Other regulations include the System for Statistics of Outbound Direct Investment, the System for Statistics of Assets, Liabilities and Trading in Foreign Financial Business and the latest System for Statistics of Foreign Trade in Culture and Entertainment (2015).

- **System for Statistics of Outbound Direct Investment**

[7] General Office of MOFCOM Notice on Reinforcing Information Reporting for "Going out"

In 2003, NBS and the former Ministry of Foreign Trade and Economic Cooperation (MOFTEC) created and published a new system, the System for Statistics of Outbound Direct Investment, to meet the demands of Chinese enterprises making outbound investments. In 2004, NBS and MOFTEC published an annual statistical bulletin. At that time it only cover the non-financial portion. In 2006, data of outbound investment from the financial services industry, owned by SAFE, was included, to complete the statistics. Between 2002 and 2015, the three ministries made six revisions to the System, combining international standards with Chinese conditions in foreign investment, to make it more sophisticated.

- **Statistics of overseas engineering contractors**

According to the Regulation on Overseas Engineering Contracting, contractors should report statistics to relevant agencies as required by commerce department and statistics department under the State Council. This regulation applies to all levels of commerce departments and enterprises with qualification of overseas contracting. The purpose of the statistics is to provide an accurate and complete picture of contracting projects overseas, so that relevant departments can make informed decisions. It is an important part of China's foreign-related economic statistics system. The system of statistics is managed on a tiered structure.[8]

- **Statistics of overseas labor service**

According to the Regulations on the Administration of Overseas Labor Service Cooperation, the commerce department and statistics department under the State Council establish the system for statistics of overseas labor service to provide timely information on such services. Overseas labor service is defined as organizing works to go to other countries or regions to work for overseas entities. This system is applicable to all-levels of commerce departments, enterprises that have obtained qualification of providing overseas labor service and seamen dispatch organizations. The purpose is to provide an accurate and complete picture of labor service projects overseas, so that relevant departments can make informed decisions. It is an important part of China's outbound investment statistics system.

3.2.3.2 Surveillance, early warning, supervision and inspection

MOFCOM works closely with relevant departments to monitor security situations in key regions and issue early warnings in a timely manner. An overseas risk column has been set up on the MOFCOM website to publish risk warnings such as changing business environment, social turmoil, natural disasters and pandemics. MOFCOM also sends out Risk Reminders for Overseas Investment to directly warn enterprises of such risks as terrorist attacks and kidnappings. In addition, MOFCOM established the Early Warning and Information System for Overseas Investment in 2010 to offer further protections for enterprises in overseas investment and mitigate security risks.

In addition, MOFCOM, Ministry of Foreign Affairs, NDRC, MPS, State-owned Assets Supervision and Administration Commission, State Administration of Work Safety and ACFIC have jointly published

[8] System for Statistics of Overseas Engineering Contracting

the Guidelines on Safety for Overseas Chinese Enterprises and Individuals. According to the document, local commerce departments should work with departments of foreign affairs, development and reform, public security and work safety to manage safety of local enterprises making overseas investments. Local State-owned assets supervision and administration department provides safety guidance to local SOEs making overseas investments. Local federations of industry and commerce support government agencies in providing safety guidance to local private enterprises making overseas investments. Overseas Chinese Embassies and Consulates are responsible for safety guidance and supervision for Chinese enterprises and their employees in their respective countries. Enterprises should follow the Guidelines to develop their own overseas safety management systems to improve safety risk management and emergency handling.

3.2.3.3 Industry and trade associations

Industry and trade associations serve as a bridge between enterprises and government agencies. They offer protection to enterprises "Going out" by relaying information and providing service at the local level.

- China Shippers' Association

Under the auspices of MOFCOM, the China Shippers' Association is a national industry association aiming at safeguarding rights and interests of importers and exporters. It conducts research in foreign trade by experts to serve importers and exporters. Its main functions include running the China Foreign Trade Enterprise website, building a database of enterprise credibility and sharing credit information. It offers information, policy advisory and promotion services to its members. It organizes trade missions both to and from China to help enterprises "Go out". It focuses on exchanges and collaborations with domestic and international organizations, especially shippers' associations in other countries.

- CHINCA

Under the auspices of MOFCOM, CHINCA was founded in April 1988. It now has more than 1,000 members and is a member of International Chamber of Commerce (ICC). CHINCA is a national trade association for international contractors, labor service companies and related service providers. It promotes self-discipline among members through coordination. Its main functions include relaying challenging and concerns of members to government agencies and relevant stakeholders in China and abroad; maintaining order in the industry; providing services to members; training; helping members to go global; building ties with international counterparts; organizing trips to exhibitions and trade fairs.

- China International Council for the Promotion of Multinational Corporations (CICPMC)

CICPMC adheres to the basic national policy of 'Reform and Opening-up', with tenets of promoting the growth and development of multinational enterprises, facilitating the exchange and cooperation between Chinese and foreign corporations, relying on the support of the government, taking multinational corporations as the mainstay and offering services as its mission. It has conducted a lot of fruitful work in enhancing the cooperation and exchange between Chinese and foreign multinational

corporations as well as promoting the growth and development of Chinese multinational corporations, and provided solutions to individual difficulties of many enterprises in their development. Working with ministries and commissions, international organizations and chambers of commerce, CICPMC has held many large-scale conferences, such as the World Economic Development Declaration Conference, High Level International Conference on Millennium Development Goals, Economic and Trade Talks of Sino-US Large-Scale Enterprises, Talk on China's Economic Situation and International CEO Roundtable of Chinese and Foreign Multinational Corporations.

To better adapt itself to new trends in cross-border investment and cooperation and the changing needs of enterprises, MOFCOM will continue to work on innovations in policy and improvements in services and risk control. It will speed up institutional reform to establish enterprises as the investment subject and promote investment facilitation by enhancing policy coordination and creating a fairer, more stable and more transparent policy framework. [9]

3.2.4 Bilateral and multilateral cooperation mechanisms

This section offers a chronicle of events in China-CEE cooperation and outcomes in developing bilateral and multilateral cooperation mechanisms.[10]

3.2.4.1 Meeting and forums

- On November 26, 2013, the Meeting of Head of Government of China and CEE Countries was held in Bucharest, Romania. China and 16 CEE countries jointly announced the Bucharest Guidelines for Cooperation between China and CEE Countries.
- In December 2013, citizens of all 16 CEE countries are entitled to 72-hour visa-free transit in ports including Beijing and Shanghai.
- In December 2013, the first High-Level China-CEE Symposium of Think Tanks was held in Beijing.
- In April 2014, a delegation of CEE correspondents visited China.
- In May 2014, the 1st China-CEEC Seminar on Innovation, Technology Cooperation and International Technology Transfer was held in Shanghai.
- In May 2014, the inaugural conference of the China-CEEC Association of Tourism Promotion Agencies and Businesses was held in Budapest.
- In June 2014, the 1st meeting of the China-Hungary-Serbia joint working group on transport infrastructure cooperation was held in Beijing.
- In June 2014, the China-CEEC Ministerial Meeting on Promoting Trade and Economic Cooperation was held in Ningbo, China.
- In June 2014, the Central and Eastern European Countries' Products Fair (CEEC Fair) was held in Ningbo.
- In June 2014, the High Level Conference on Transport, Logistics and Trade Routes: Connecting Asia with Europe was held in Riga, Latvia

[9] MOFCOM, Report on Development of China's Outward Investment and Economic Cooperation 2014
[10] China-CEE Cooperation website, http://www.china-ceec.org/chi/fwpt.html, visited on Sep 1, 2015.

- In August 2014, the 2nd China-CEEC Local Leaders' Meeting was held in Prague, the Czech Republic.
- In August 2014, In August 2014, the China Investment Forum was held in Prague.
- In August 2014, the Memorandum of Understanding on Promotion of the Establishment of the Association of Governors of Provinces of China and Representatives of Regions of CEEC was signed in Prague.
- In September 2014, the 2nd China-CEEC High-Level Symposium of Think Tanks was held in Bled, Slovenia.
- In September 2014, the 2nd China-CEEC Education Policy Dialogue was held in Tianjin, China.
- In September 2014, the China-CEEC Higher Education Institutes Consortium was established in Tianjin. Sofia University (Bulgaria) was elected as its first rotating coordination center on the European side.
- In September 2014, a China-CEEC symposium on investment promotion was held in Xiamen, China.
- In September 2014, the establishment of China-CEEC Investment Promotion Agencies Contact Mechanism was announced in Xiamen.
- In September 2014, a China-CEEC investment promotion event was held in Xiamen.
- In October 2014, a promotion event dedicated to CEECs was held in Guangzhou, China, during the 11th China International Small and Medium Enterprises Fair.
- In October 2014, the China-CEEC Agrotrade and Economic Cooperation Forum was held in Bucharest.
- In October 2014, agreement was reached on Bulgaria leading the efforts to establish a China-CEEC association on promoting agricultural cooperation.
- In October 2014, artistic directors and choreographers of international dance festivals from the CEECs visited China.
- In October 2014, an event dedicated to China-CEEC cooperation in environmental technologies was held in Poznan, Poland, during the PolEko fairs .
- In Nov 2014, the 2nd Meeting for the Investment Promotion Agencies Contact Mechanism of China and CEECs was held in Warsaw, Poland.
- In November 2014, a promotion event of Chinese and CEEC tourism products was held at the China International Travel Mart in Shanghai.
- In November-December 2014, delegations of Chinese journalists visited CEECs.
- In December 2014, the 3rd China-CEEC Meeting of Heads of Government was held in Belgrade, Serbia.

3.2.4.2 Bilateral investment treaties between China and CEE

Since the 1980s, China has signed Bilateral Investment Treaties (BITs) with 14 CEE countries (see table below), providing full legal protection to bilateral investment.

Country	Date	Treaty
Bulgaria	June 27, 1989	BIT between PRC and Bulgaria
Hungary	May 29, 1991	BIT between PRC and Republic of Hungary
Czechoslovakia	December 4, 1991	BIT between PRC and Czechoslovakia
Ukraine	October 31,1992	BIT between PRC and Ukraine
Moldova	November 16, 1992	BIT between PRC and Republic of Moldova
Belarus	January 11, 1993	BIT between PRC and Republic of Belarus
Albania	Feburary 13, 1993	BIT between PRC and Republic of Albania
Croatia	June 7, 1993	BIT between PRC and Republic of Croatia
Estonia	Sep 2, 1993	BIT between PRC and Republic of Estonia
Slovenia	Sep 13, 1993	BIT between PRC and Republic of Slovenia
Lithuania	Nov 8, 1993	BIT between PRC and Republic of Lithuania
Romania	July 12, 1994	BIT between PRC and Romania
Former Yugoslavia (applicable to Serbia)	Dec 18, 1995	BIT between PRC and Federal Republic of Yugoslavia
Macedonia	June 9, 1997	BIT between PRC and Republic of Macedonia

3.2.4.3 Bilateral tax treaties

China has signed bilateral tax treaties with 15 CEE countries (see table below) to eliminate the negative impact of double taxation on economic, technology and talent exchanges.

Country	Date signed	Date effective	Date of implementation
Slovakia	1987.6.11	1987.12.23	1988.1.1
Former Yugoslavia (applicable to Bosnia and Herzegovina)	1988.12.2	1989.12.16	1990.1.1
Bulgaria	1989.11.6	1990.5.25	1991.1.1
Romania	1991.1.16	1992.3.5	1993.1.1
Hungary	1992.6.17	1994.12.31	1995.1.1
Croatia	1995.1.9	2001.5.18	2002.1.1
Belarus	1995.1.17	1996.10.3	1997.1.1

Slovenia	1995.2.13	1995.12.27	1996.1.1
Ukraine	1995.12.4	1996.10.18	1997.1.1
Lithuania	1996.6.3	1996.10.18	1997.1.1
Latvia	1996.6.7	1997.1.27	1998.1.1
Former Yugoslavia **(applicable to Serbia and Montenegro)**	1997.3.21	1998.1.1	1998.1.1
Macedonia	1997.6.9	1997.11.29	1998.1.1
Estonia	1998.5.12	1999.1.8	2000.1.1
Albania	2004.9.13	2005.7.28	2006.1.1
The Czech Republic	2009.8.28	2011.5.4	2012.1.1

Appendixes

I. Selected Cases of CEE Investments in China

Poland

In 2013, Chengde Bente Ecology and Energy Technology Co., Ltd. entered into partnership agreement with the Polish company Metalerg to acquire the exclusive right to use the latter's proprietary biomass boiler technology in China. As a major player in the field of biomass energy in Polant, Metalerg possesses advanced biomass boiler design and manufacturing technologies as well as a number of European patents. Apart from introducing advanced biomass boiler design and manufacturing technologies and related patents to China, this collaborative project also aims at developing appropriate products that cater to the characteristics of different regions in China.

In 2014, Boryszew Group from Poland invested in manufacturing facilities in Dalian. A leader of piping component products and technologies for automotive air conditioning systems in Europe, this Group has its products utilized by all brands under the Volkswagen umbrella. The Group's investment project (approximately 30 million euros) in Dalian Free Trade Zone is already in full swing.

Hungary

In 2013, Sigaole Investment Group from Hungary invested an equivalent of RMB 3.3 billion to build Huaxia Xiangjiang International Agriculture Industrialization Demonstration Park in Hengshan County, Hunan Province of China. With a commitment to developing an integrated agriculture industrialization park featuring modern agriculture, agricultural leisure activities, agro-processing and logistics, tourism, health and amusement functions, this project is planned to be developed in 3 phases over a construction period of 10 years. Thanks to smooth progress, phase I of the Project had already been partially completed and put into use as of the end of 2015.

In 2014, the signing ceremony for partnership between Guangdong WIOT Co., Ltd. and the National Innovation Office of Hungary was held in Foshan. Under the agreement, the two sides will promote transnational development of SMEs from both countries, and Hungarian SMEs will gain free access to special package of services including market expansion, talent support, investment and financing services, intellectual property protection, etc. so as to enhance, promote and operate the "technology transfer and cooperation platform for Hungarian SMEs". Since then, the two sides have held consultation conferences at least once every year, through which the two sides provide each other with all relevant information, advice and services for free.

Czech

In 1995, Czech Agrofert Group set up its representative office in Beijing. Agrofert is the second largest group in the chemical industry in Czech, and the second largest nitrogen fertilizer producer in Europe. It also owns major organic pigment production facilities in Europe and the world's leading production facilities for rubber chemicals. Since its inception, it has been committed to trade and information exchange between China and the Czech Republic.

In 2000, the Czech company AGS set up a joint venture – Jiangsu AGS-Haizhu Machinery Co., Ltd. with Jiangsu Hongze Haizhu Cylinder Jackets Co., Ltd. to engage in manufacturing of cylinder jackets. Total investment into this JV was USD 5.4 million, with AGS holding 55% of the shares. The JV was officially put into operation in 2001. Its production output almost tripled thanks to increased labor efficiency through the utilization of Czech technologies and equipment. As of 2015, the JV's product portfolio was already expanded to contain over 200 types of products in nearly 20 categories.

In 2004, PPF Group, the largest financial credit group (which owns insurance, e-banking and family credit businesses) in Czech Republic, established a representative office in Beijing. Its business scope covers the following: acquisition of non-performing loans related to asset management companies, consumer credit, life insurance and project investments. In June 2005, at an auction by China Cinda Assets Management Company, the Group won the bid to acquire non-performing assets of a project in Shenzhen at a price of RMB 200 million. In the same year, PPF Group and China Changhong signed an MOU on Support by Changhong for PPF Group's Business in China.

In 2005, Shanghai Volkswagen entered into agreement with Skoda Auto, a wholly-owned Czech subsidiary by Volkswagen Group, to bring in Skoda models and integrate Skoda brand into its portfolio. This partnership also marks the start of Shanghai Volkswagen to implement a multi-brand strategy.

In 2014, with the aim of accelerating the development of light general aviation in Sichuan province, an MOU on general aviation was signed among Czech Investment and Business Development Agency, Chengdu EU Project Innovation Center and Chengdu Hi-tech Industrial Development Zone Management Committee to promote communication and collaboration among related government bodies, companies and general airports in Chengdu city, Sichuan Province and their counterparts in Czech Republic. In the same year, Czech General Aviation Industrial Park was constructed in Chengdu, which also signaled the official launch of a general aircraft production line in Chengdu.

In 2014, the Czech biotechnology company Sotio set up its laboratory in Beijing to carry out R&D on cancer therapies and promote the advancement of cancer treatment technologies in China. Sotio is a world leader of autologous immunotherapy technology. It is planned that Sotio's technology and management practices will be gradually transferred in full to China. Currently, Sotio has already entered into partnership with many hospitals in China, such as Beijing Cancer Hospital, Tongren Hospital and China-Japan Friendship Hospital, to name just a few.

Slovakia

In 2014, the Slovakian company KINEX set up its branch in Beijing. Founded in 1906, KINEX is a leading European manufacturer of special bearings for the textile industry and locomotive bearings, boasting a rich history of bearing production.

II. Selected Cases of Chinese Investments in CEE Countries

Poland
In 2012, Guangxi Liugong Group acquired the construction machinery division of the Polish company HSW at a price of over USD 57 million. In the next five years, Liugong plans to have further cumulative investment of approximately USD 330 million into this company. This was the first time that Chinese capital participates in the privatization of Polish state-owned enterprises, and it was also the largest single foreign direct investment in Poland in that year.
In 2012, Jaworzno opened its tendering of a new power plant project. China Power Engineering Consulting Group Co., Ltd. (CPECC, 98%) and China Overseas Engineering Group (COVEC, 2%) won the project through joint bidding at a price of PLN 4.9 billion (approximately 1.2 billion euros). The installed capacity of the project was 840 MW and net efficiency 46.07%.
In 2012, the Warsaw branch of the Industrial and Commercial Bank of China (ICBC) officially announced its operation in Warsaw, the capital of Poland. As the first branch established by ICBC in Central Europe, it contributed to the formation of a complete business network for ICBC in the region. This is not only a significant achievement through economic cooperation between Poland and China, but also a strategic choice made by ICBC to serve its customers worldwide: ICBC is committed to serving as the tie or bridge for the promotion of economic and financial activities like economic and trade exchanges, project investments, etc. between China and Poland as well as the European Union. It has become a new platform for financial exchanges and cooperation between China and Poland.
In 2013, Haier Group announced the establishment of a joint venture with Fagor Group, one of the leading home appliance manufacturers in Europe. A new plant for the JV was established in Wroclaw, a city in the southwestern part of Poland, to produce refrigerators. Haier holds 51% of the equities in the new joint venture company while Fagor holds the remaining 49%. In addition to the new production facility, the R&D teams of the two companies will jointly develop high-end and high-quality products.
In 2013, at a price of PLN 4.3 million, China Pinggao Group won the bid to construct a 400 kV high-voltage transmission line of 70 kilometers in northern Poland.
In 2014, Liugong Dressta Machinery Co., Ltd., a subsidiary of Liugong Machinery Co., Ltd. in Poland, was recognized as one the "Best Chinese investors in Poland" (the 2014 Best Foreign Direct Investors in Poland voting activity organized by "Polish Business" magazine and sponsored by Poland

Information and Foreign Investment Administration, special economic zones in Poland and each country's Chamber of Commerce in Poland). On January 31, 2012, Liugong Group officially acquired the civil construction machinery division of the Polish company HSW at a price of PLN 170 million (about RMB 335 million). In October 2013, it officially acquired all assets and technologies of ZZN, the Polish manufacturer of world-class transmission systems. It has thus become the largest Chinese company in Poland and also in Central Europe, creating 1,800 more job opportunities for the local economy.
2014, Tong Ren Tang Poland Co., Ltd. was opened in Warsaw. This is the first branch of Beijing Tong Ren Tang in Poland and in Europe.
Hungary
In 2011, Yantai Wanhua Industrial Group Co., Ltd. invested 1.26 billion euros to acquire 96% of the equities in the Hungarian company BorsodChem. Later, an additional investment of 300 million euros was made to complete the construction of a new production facility for toluene diisocyanate (TDI) with annual output of 160,000 tons. In 2012, Wanhua Group signed agreement with the Hungarian government to invest 150 million euros in the country, mainly in chemical and energy industries focusing on sectors like crude oil processing, paints, and plastic products.
In 2013, Huawei's branch in Hungary expanded its logistics center in Biatorbagy Hungary from 20,000 square meters to 30,000 square meters. By 2015, all products sold by Huawei in Europe were made in Hungary and distributed through this logistics center.
In May 2014, RZBC Group registered and established Borsod Biochemical in Hungary. The company plans to invest 99.55 million euros into a citric acid and salt production line with annual output of 100,000 tons. As an important investment project, it has received support from the Hungarian government, with a large-scale investment project grant agreement signed with the Ministry of National Development of Hungary.
Croatia
In 2014, China Dynamics became a shareholder of Rimac Automobili. It entered into an investment agreement with Mate Rimac, in which Mate Rimac holds 92% of the shares, to make a conditional investment into Rimac Automobili for 10% of its shares.
Czech Republic
Founded in 2006 in Nymburk, a city to the north of the Czech capital Prague, Changhong Europe Electric is currently China's largest manufacturing company in the Czech Republic. Sichuan Changhong later increased its investment in Czech Republic to build a European Product R&D center and has been making continuous efforts to develop overseas markets. In 2015, Changhong Group signed an MOU with Nymburk, a city in central Czech Republic, for an investment increase of 20 million euros. According to the MOU, Changhong Group will build production lines for white goods such as refrigerators and washing machines. It is going to be the largest investment from China into

the manufacturing industry in Czech Republic and a Europe-oriented home appliance manufacturing base is expected to take shape.
In 2015, Shaangu Power acquired shares of the Czech company EKOL. This is the largest investment by China in recent years into the manufacturing sector of Czech Republic. It is expected that both parties will give full play to their comparative advantage in this field, create synergy, and bring about more Sino-Czech partnership in manufacturing and technology.
In 2015, BWI Cheb Plant broke ground. The third factory of BWI Group in Europe, it will mainly produce shock absorbers for passenger cars. The new plant is expected to be completed at the end of May 2016, and then enter the phase of equipment installation and commissioning. Production will be launched in early 2017.
Lithuania
Led by the Lithuanian government, S.F. Express signed strategic partnership agreement with Lithuania Post through the help of the Deputy Minister of Transport and Communications of the Republic of Lithuania. The scope of the strategic partnership covers multiple dimensions including the establishment of an integrated logistics services center in Europe. In addition to the traditional business of delivering documents and parcels between China and Europe, S.F. Express will shift its focus of development further towards cross-border e-commerce in its efforts to open postal transfer business and construct overseas warehouses. As the only strategic partner, S. F. Express is to have in-depth collaboration with Lithuania Post in logistics, warehousing, financial settlement, data, cross-border e-commerce, etc. across the Internet-based logistics chain. By leveraging its own global network, S.F. Express is helping Lithuania Post to build itself into Europe's second largest logistics hub. At the same time, S.F. Express is also developing its own integrated logistics service center in Lithuania to serve the European market.
In 2013, Huawei Computer Network College was opened at the Physics Center of Vilnius University. This is another achievement as the result of close collaboration between Huawei and the University following their joint establishment of a telecommunication technology laboratory. It is also the second computer network college opened by Huawei in collaboration with a well-known local university in Europe. This project, conducive to promoting the use of independently developed new technologies and the training of local talents of network technologies, is expected to realize pragmatic cooperation and mutual benefit.
Slovenia
In 2013, China Hengtian Group and its partners jointly acquired the Slovenian company TAM-Durabus (formerly TAM Bus), with the Chinese side as the majority shareholder. After the acquisition, the company has focused its efforts on production and sale of the airport coach buses, tourist coach buses, coasters and chassis.
Slovakia
In 2013, Chery opened its first sales and service center in Europe in Bratislava, the capital of Slovakia. The Center is run by Autobinck, a German car company. Chery plans to take this opportunity to gradually expand its business throughout Central and Eastern Europe.

Romania
In 2012, ET Solar Group, the world's leading one-stop provider of solar power solutions, announced that it was to take Romania's largest 50MW photovoltaic power plant project. The owner of the project is a local power supplier well known in Romania.
In 2013, ET Solar completed the construction of an 18.5 MW PV power plant in Giurgiu Province, Romania.
In 2013, Lightway Green New Energy Co., Ltd. acquired 100% of the equities of the Romanian company Sun Garden Colibasi through its wholly-owned German subsidiary (Lightway Germany) at a price of 2.49 million euros. It also made a further fixed-asset investment of RMB 590 million to build a 50MW PV power station in Colibasi county of Romania.
In 2014, the Industrial and Commercial Bank of China signed a MOU of Financial Operation with Liviu Dragneare, the First Deputy Prime Minister of Romania. According to the MOU, ICBC will take Romania as an important strategic region in Eastern Europe, and actively leverage its strength in comprehensive operation to provide all-around financial services to Chinese companies with investments, projects and import or export businesses in Romania. The Government of Romania will play the role as an organizer and a coordinator to actively create a favorable business environment for ICBC. In the same year, ICBC financed the Cernavoda Nuclear Power Station Unit 3 and 4 projects, the construction cost of which was expected to reach 6.4 billion euros. In addition, ICBC would also finance Tarnita pumped storage hydro power station, wind power plant and other energy projects as well as the Romanian railways, especially high-speed ones. In order to ensure smooth progress of financing for these projects, ICBC is working to set up its branches in Romania.
In 2014, China General Nuclear Power Group (CGN) invested in the Romanian Cernavoda Nuclear Power Station Unit 3 and 4 projects. In addition, CGN signed a letter of intent with the Romanian national nuclear company Nuclear electrica for project construction, which marked a solid step by CGN on its journey to promote the implementation of China's "going global" strategy in the nuclear power sector.
In 2014, China Huadian Corporation set up a joint venture with Oltenia Energy Complex to develop the Rovinari coal-fired power station. With investment of about 1 billion euros and installed capacity of 600MW, this project became the first major investment by the Romanian government in the power industry since 2007, and it created 400 job positions. In 2015, the Romanian government announced that it would jointly build a 600-megawatt coal-fired power plant with China Huadian.
Serbia
In 2014, China National Machinery Industry Corporation (Sinomach), China National Electric Engineering Co., Ltd. (CNEEC) and Beijing Yuanfang Technology Corporation affiliated to CNEEC made the plan to build three industrial parks in Serbia, each with an investment of 1 billion euros.

III. Contact Information of Investment Promotion Agencies

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IV. China-CEEC Liaison Mechanism for Investment Promotion Agencies

- **Member from China: Investment Promotion Agency of Ministry of Commerce**
- **Members from CEEC:**

Albanian Investment Development Agency
Website: http://www.aida.gov.al/

InvestBulgaria Agency

Website: http://www.investbg.government.bg/

Polish Information and Foreign Investment Agency
Website: http://www.paiz.gov.pl/

Czech Investment

Website: http://www.czechinvest.org/

Investment and Development Agency of Latvia
Website: http://www.liaa.gov.lv/

Romania Department for Foreign Investments and Public-Private Partnership

Website: http://dpiis.gov.ro/

Serbia Investment and Export Promotion Agency

Website: http://siepa.gov.rs/

Public Agency of the Republic of Slovenia for Entrepreneurship, Internationalization, Foreign Investments and Technology
Website: http://www.spiritslovenia.si/

Estonian Investment Agency
Website: http://www.eas.ee/

Foreign Investment Promotion Agency of Bosnia and Herzegovina
Website: http://www.fipa.gov.ba/

Montenegrin Investment Promotion Agency
Website: http://www.mipa.co.me/

Croatia Agency for Investments and Competitiveness
Website: http://www.aik-invest.hr/

Lithuanian Investment Promotion Agency
Website: http://www.investlithuania.com/

Macedonian Foreign Investment and Export Promotion Agency

Website: http://www.investinmacedonia.com/

Slovak Investment and Trade Development Agency
Website: http://www.sario.sk/

Hungarian Investment and Trade Agency

Website: http://www.hipa.hu/

Chinese Secretariat: Investment Promotion Agency of Ministry of Commerce

CEEC Secretariat: Polish Information and Foreign Investment Agency

V. Investment Promotion Agency of Ministry of Commerce of the P.R.China

Established in February 2nd, 2003, the Investment Promotion Agency of the Ministry of Commerce is committed to implementing the national policy of opening-up and serving investors home and abroad, with a focus on two-way investment promotion that gives equal emphasis to both "Inviting in" (FDI in China) and "Going out" (outbound investment).

Institutional setting

- **Internal departments:** Commission of Directors, Administrative Office, Finance Department, General Office (Center for Handling Complaints by Foreign-Invested Companies), IT Department, Liaison Department, the Department of Exhibition, Korea Investment Cooperation Department, Department of Natural Resource and Energy Industry, Department of Machinery Industry, Department of Industrial and Consumer Goods, Department of IT industry, Department of Service Industry.
- **Overseas branches:** Representative Office in Europe, China International Investment Promotion Centre (Europe), China International Investment Promotion Center (Germany), Representative Office in Korea.
- **Domestic branches:** China International Investment and Trade Fair Office of the Ministry of Commerce
- **Affiliated enterprises:** China International Investment Promotion Center.

Networks and working mechanisms

Build platforms for exchanges and cooperation between domestic and foreign enterprises for two-way investment, and provide business matching services for investment and financing opportunities via extensive partnership network involving domestic and foreign government agencies, investment promotion agencies, business associations, intermediaries, and various types of enterprises.

Overseas networks and working mechanisms

- Targeted investment promotion work via bilateral or multilateral working mechanisms such as Sino-Mexican Entrepreneurship Working Group, German Council of Economic Experts, China-CEEC liaison mechanism for investment promotion agencies, Joint Working Group of Trade and

Investment between Chinese Cities and Chicago, Sino-British Joint Liaison Group, Investment Working Group for China and Lusophone Countries, ASEAN Expo investment cooperation, etc.

- 85 memorandum of understanding on two-way investment promotion signed with 87 government authorities in 50 countries and regions, with follow-up efforts to deepen pragmatic cooperation.

Domestic networks

- Close ties forged with government bodies, investment promotion agencies, all state-level economic development zones and border economic cooperation zones domestically in 31 provinces, autonomous regions and municipalities.
- 10 industry investment promotion agencies founded to leverage investment promotion resources across industries.
- Joint committees for investment promotion established in national-level economic and technological development zones to enrich and improve services, and promote exchanges and cooperation with domestic and foreign enterprises.

Main services and products

- Bilateral and multi-lateral investment cooperation and exchanges: High-level economic and trade activities when national leaders visit each others' countries; investment promotion delegations across industries with forums, seminars, business matching activities, etc.; assistance with provinces, cities and relevant foreign agencies in China for investment promotion activities.
- Branded investment promotion activities: Chinese and Foreign Investment Promotion Agencies Conference, Dialogue between Chinese Private Businesses and Fortune 500, Mayors Forum on Sustainable Development, Dialogue between NETDZs and Fortune 500, Forum on Globalization of Chinese Enterprises, Multi-national Corporations in China, etc.
- Business matching, trade fairs and exhibitions: organization of China International Fair for Investment and Trade, Central China Investment and Trade Expo, etc.; participation in preparatory work on ASEM Fair, ASEAN Expo, Langfang Investment and Trade Fair, Lanzhou Investment and Trade Fair, etc; organization of market-oriented industry shows.
- Special Reports: Guidance for Investing in China, China Investment Promotion Development Report, Investing in China series, Countries/Regions for Chinese Foreign Investment Promotion series, Industry Development Report for National Economic and Technological Development Zones in China, Handbook for Leading Industries in NETDZs, industry investment promotion serial reports, and overall planning or industry-specific planning for regions and developments on investment promotion.
- Information and advisory services: Compilation of Legal Documents Regarding China's Use of Foreign Investments, China Investment Promotion magazine (bimonthly), telephone counselling

(010-64404523), online consulting (www.fdi.gov.cn → legal services → legal advice on investment).

- Training: Professional training activities for local governments, investment promotion agencies, development zones, domestic and foreign enterprises, etc.
- Promotion of industrial migration: Guide, coordinate and manage Industrial Promotion Centers (Shanghai and Kunshan) work; organize industrial migration activities across the nation to serve the Midwest region; create effective models of industrial migration and cooperation.
- Information network platform: Run Invest in China website (http://www.fdi.gov.cn), the website of Investment Promotion Agency of Ministry of Commerce (http://tzswj.mofcom.gov.cn), the website for China national economic and technological development zones and border economic cooperation zones (http://ezone.mofcom.gov.cn) and the database for investment projects of Ministry of Commerce.

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