

CHINA ABROAD – INVESTMENT, INTEGRATION, OUTLOOK

NOVEMBER 13, 2015

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Development and the U.S.-China Relationship**
Friday, November 13, 2015
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China abroad - Investment and Integration - Two Quotes



When providing economic aid and technical assistance to other countries, the Chinese Government shall act in strict compliance with the following eight principles:

1. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual.
2. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges.

Premier Zhou Enlai announced China's eight principles of foreign aid in 1964 while visiting Somalia. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual. Jan 15, 1964

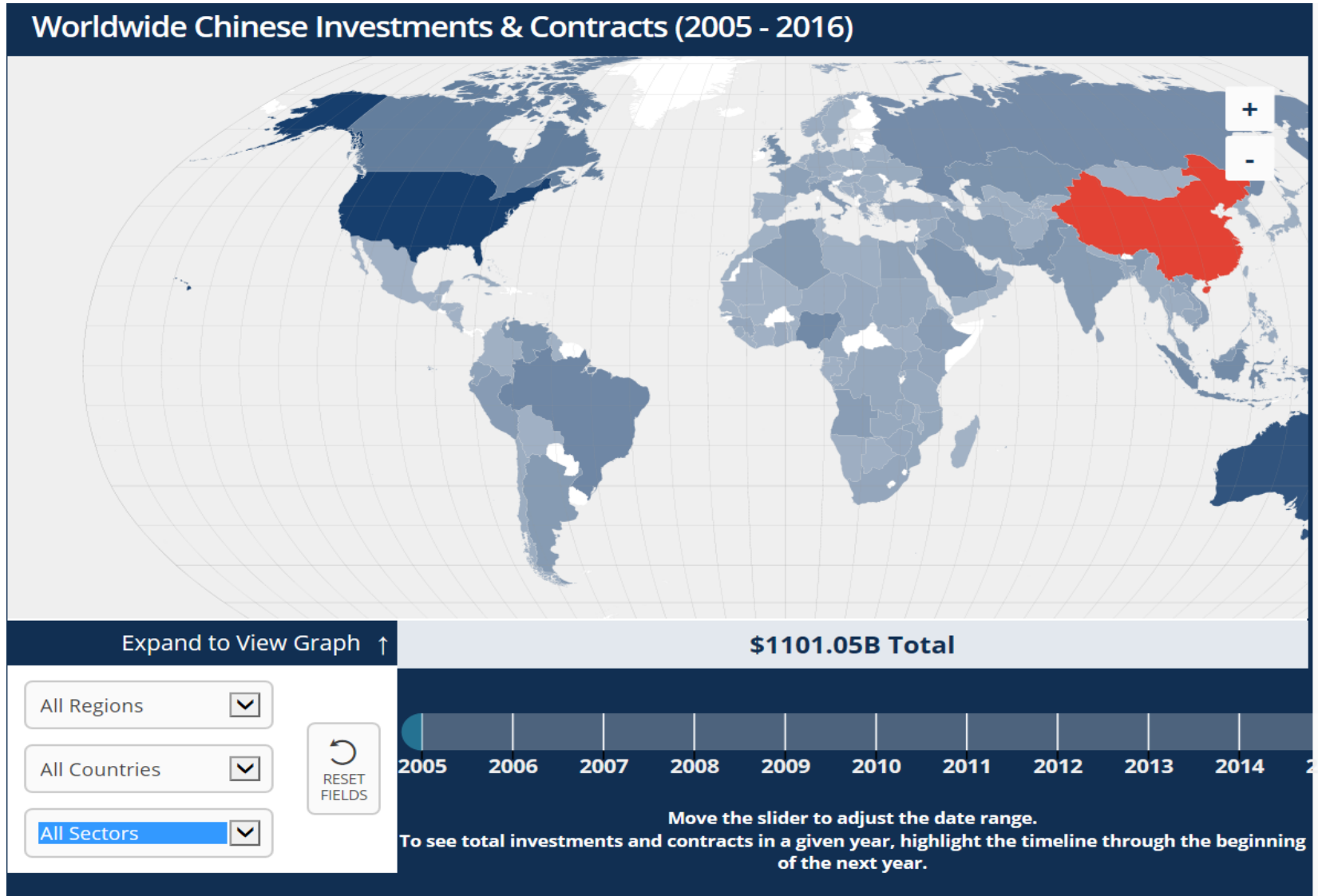
http://www.chinadaily.com.cn/china/2010-08/13/content_11149131.htm

"If we can take the Congo (Zaire), we can take all of Africa"

(as reported in 1964 and attributed to Mao; the quote is shared by Warren Weinstein who credits as the source Bruce Larkin, *China and Africa – 1949-1970*, p. 72. Weinstein uses the quote in Weinstein, Warren, *Chinese Policy in Central Africa: 1960-1973*, p. 56 in Weinstein Warren (ed), *Chinese and Soviet Aid to Africa*. Praeger Publishers 1975, pp 56-82. Bruce Larkin is also a contributor to this book).

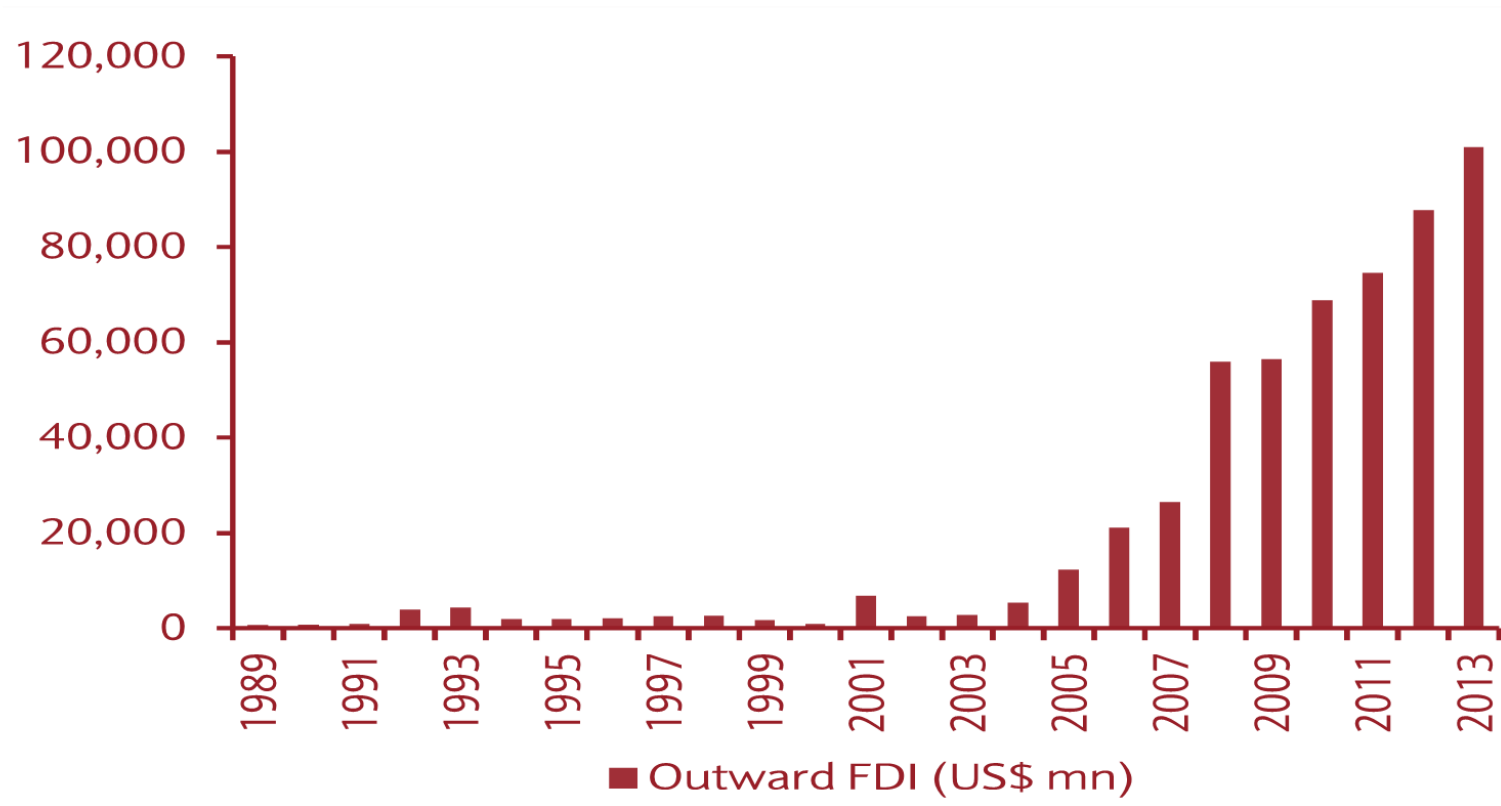
China abroad – Investments

All Sectors – most in Developed Countries, few white spots



Reflections on China's Ascent (1)

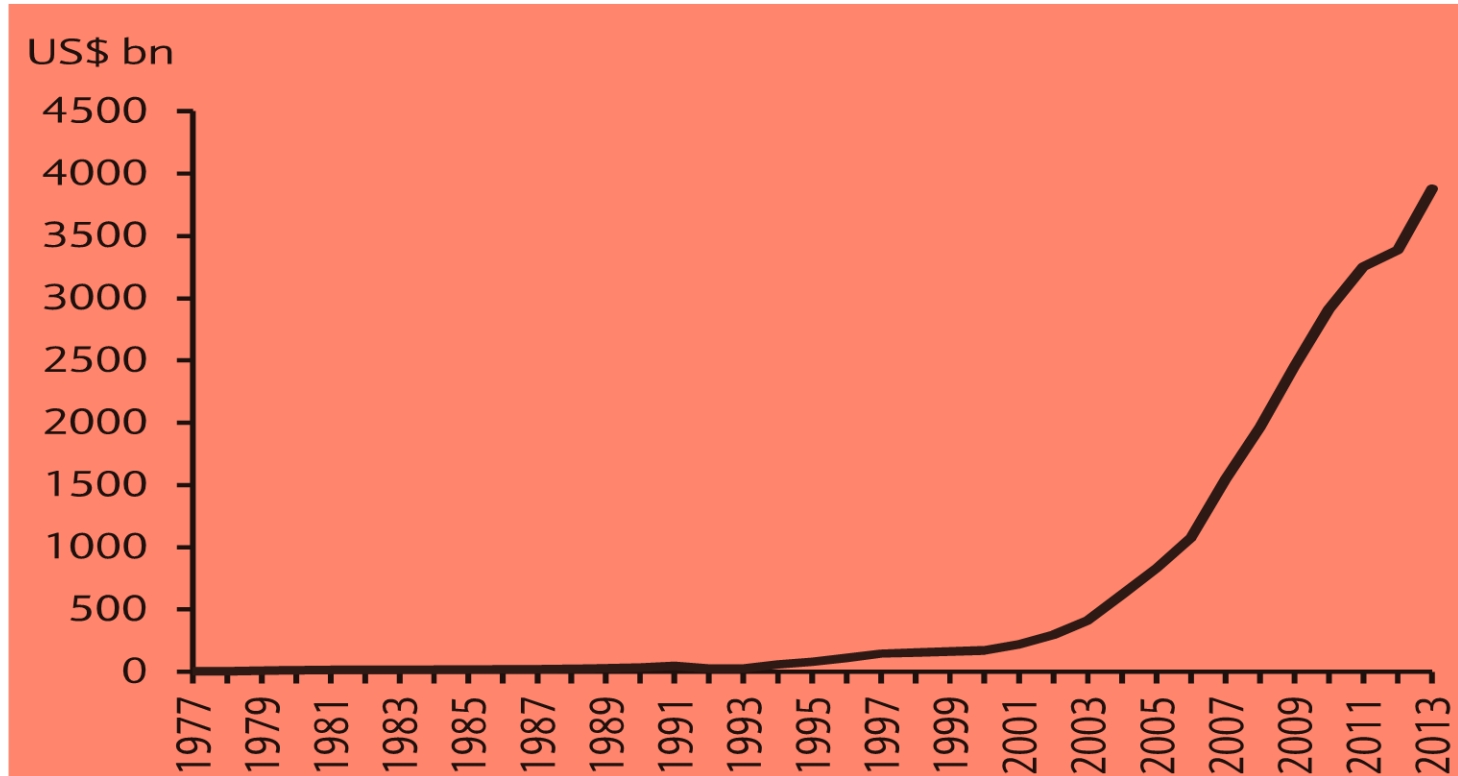
China's outward FDI has steadily increased and accelerated after 2007, i.e. concurrent with the begin of the GFC (Great Financial Crisis)



Source: World Bank, Datastream, CITIC, Barclays, Goldman Sachs, CLSA, China MoCv

Reflections on China's Ascent (2)

China's reserves were built up in the past 15 years

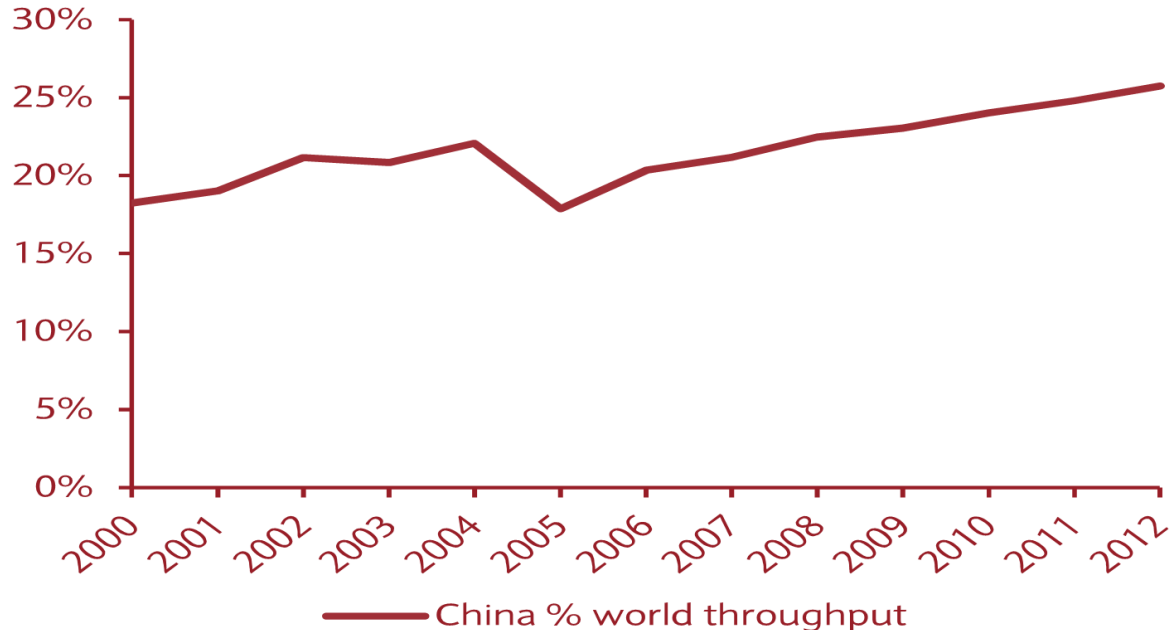


Source: World Bank, Datastream, CITIC, Barclays, Goldman Sachs, CLSA, China MoC

Reflections on China's Ascent (3)

Steady increase of China's share of port throughput

Share of Chinese ports' throughput globally has been steadily increasing

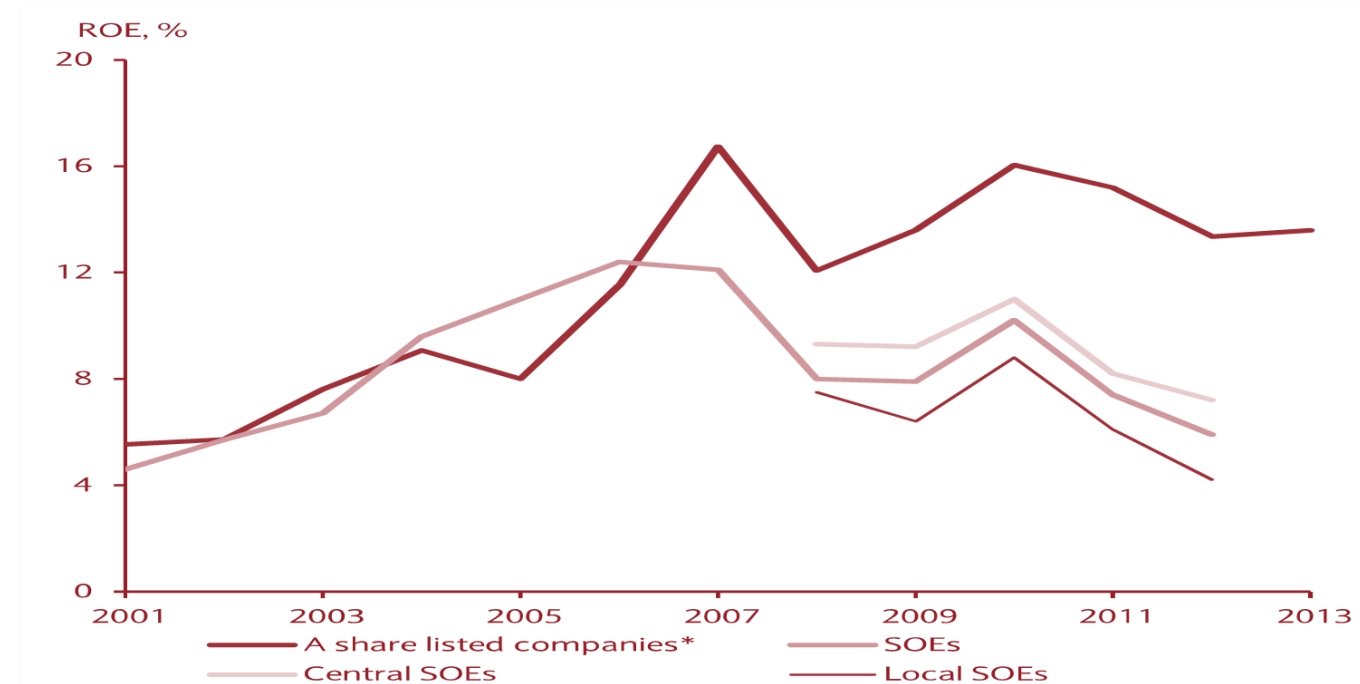


Source: World Bank, Datastream, CITIC, Barclays, Goldman Sachs, CLSA, China MoCv

Reflections on China's Ascent (4)

State-Owned Enterprises remain profitable but less so

Average ROE for SOEs has been falling since 2007



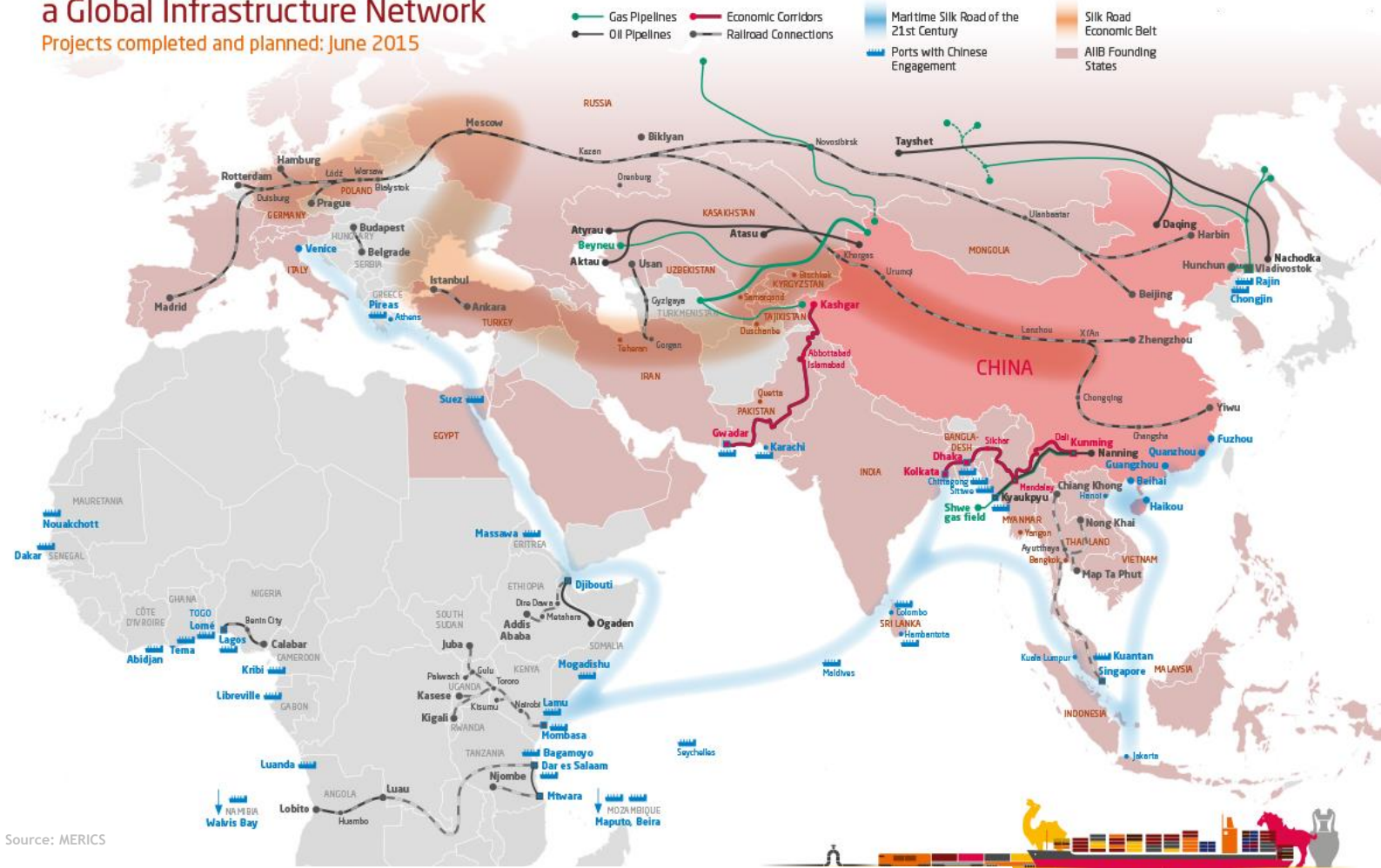
*Shanghai and Shenzhen listed.

Source: World Bank, Datastream, CITIC, Barclays, Goldman Sachs, CLSA, China MoCv

Contours of One Belt One Road

One Belt, One Road: With the Silk Road Initiative, China Aims to Build a Global Infrastructure Network

Projects completed and planned: June 2015



Source: The Diplomat, Sept 24, 2015.

9 <http://thediplomat.com/2015/09/chinas-silk-road-initiative-is-at-risk-of-failure/>

Silk Road Initiative - One Belt, one Road (OBOR)

- Multi-country strategy interdependencies. OBOR likely to touch 21 countries across Africa, Middle east & Northern Africa, Europe, South Asia, and East Asia
- Change from Going Out model & enhancing Going West strategy. Reflecting lessons about financing structures, project design, and stakeholders
- Needs are primarily described as enhancing shared prosperity (West China & Central Asia & Asean) through connectivity - enabling transmission of goods & services – translated as infrastructure investment. Yet OBOR is not only about infrastructure sector investments

Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan, India, Sri Lanka, Bangladesh, Pakistan, Malaysia, Indonesia, Philippines, Cambodia, Thailand, Laos, Myanmar, Vietnam, Iran, Turkey, Kenya (almost 4 bn people. Kenya and Turkmenistan are the only two non AIIB members.

Some positive impacts if OBOR delivers on ambitious goals

FOR OBOR COUNTRIES

- Contribute to filling the infrastructure financing gap in ASEAN and other countries along the OBOR
- Favorable lending terms from AIIB and Silk Road Fund potentially diminishing additionality and sustainability goals
- Completed projects could improve connectivity and thus productivity and efficiency and reach to Chinese consumers
- Build on Chinese overcapacity (steel, cement, solar PVs) and create local employment (especially low skill jobs)

FOR CHINA

Maintain export growth creating demand for Chinese capital goods and create beachhead for service exports

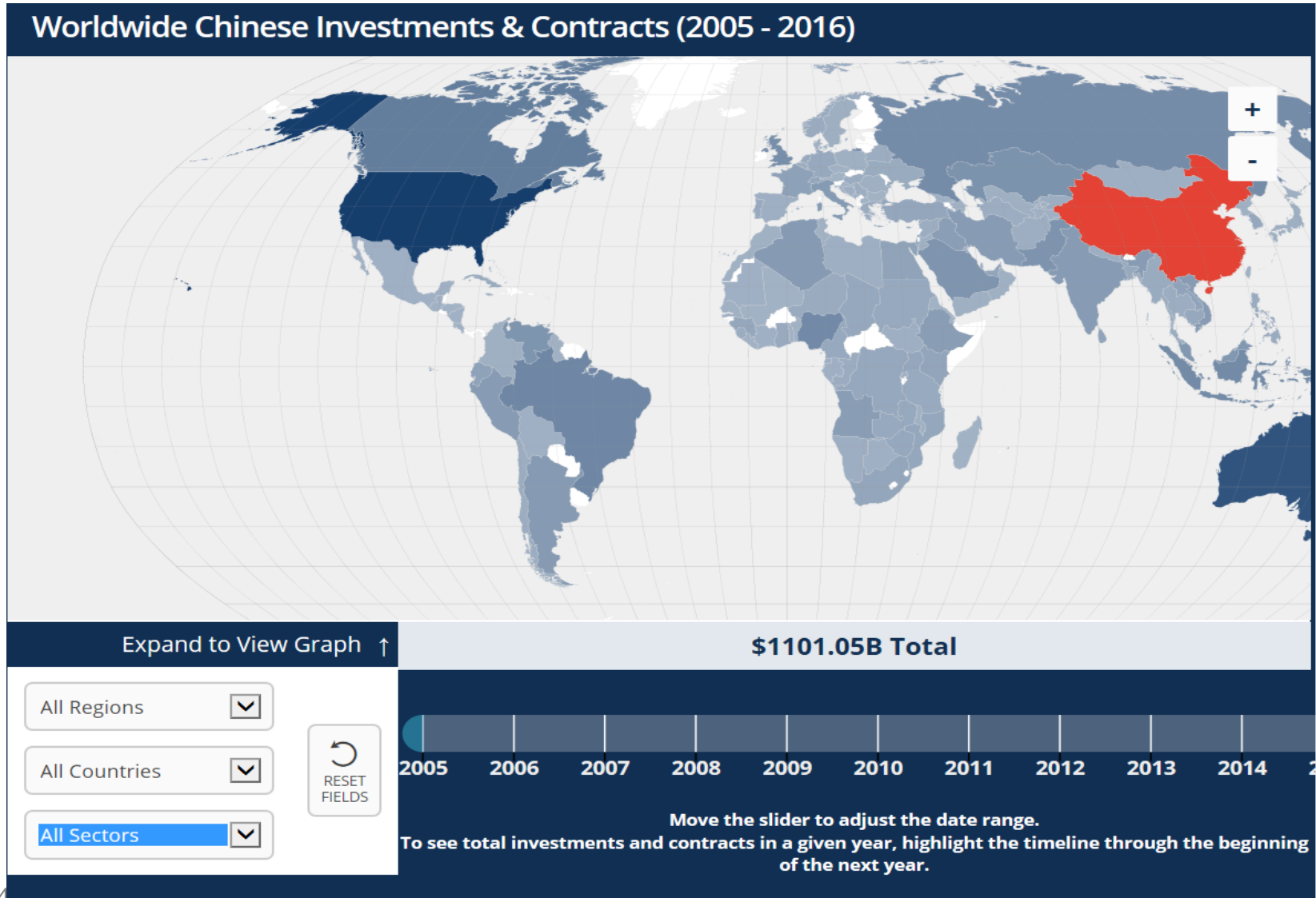
Continue 1.7 Trillion Yuan “Western Development” increasing shared prosperity between inland and coastal areas

Diversify reserves through AIIB/SRF/NDB RMB lending among a basket of currencies used to denominate and settle instruments

Absorb industrial overcapacity, reform SOEs, and reduce corruption and inefficiencies in Going Out initiative.

China abroad – Investments

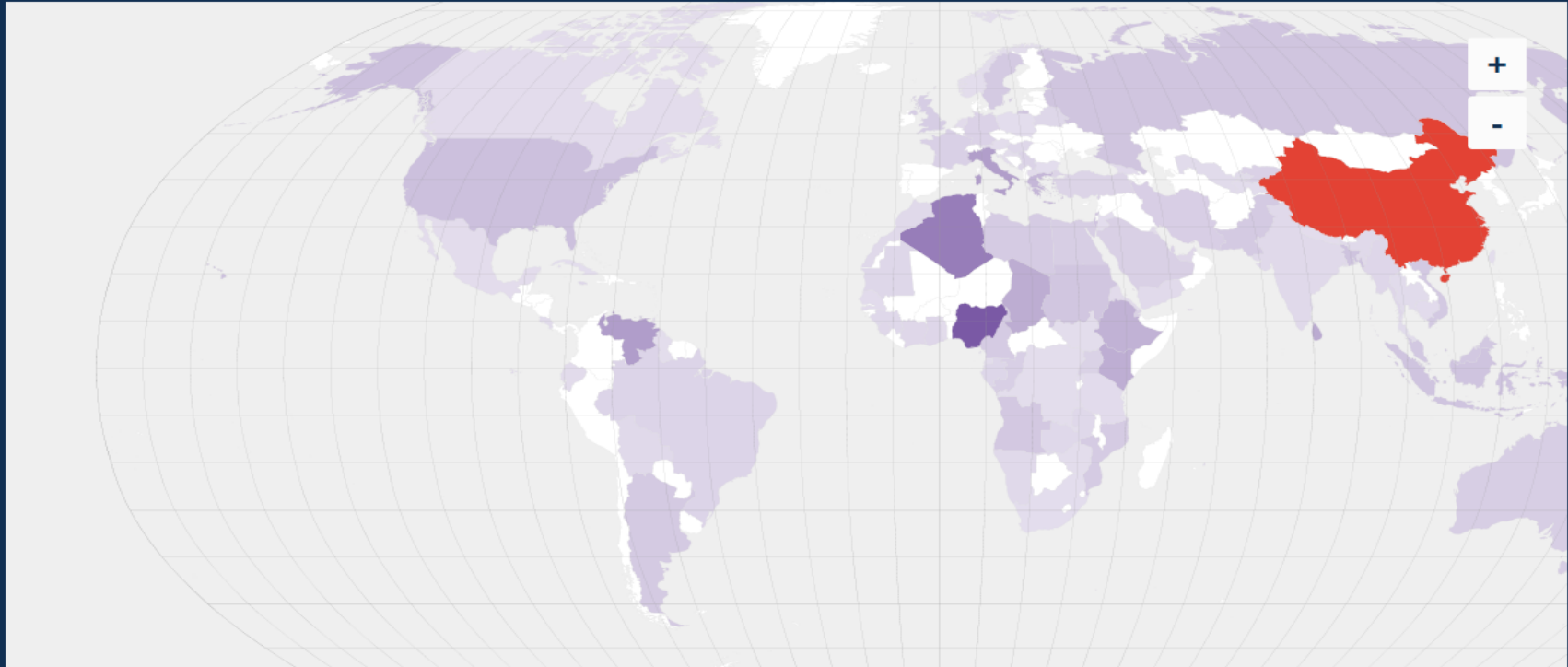
All Sectors – most in Developed Countries, few white spots



China abroad – Investments

Transport – Worldwide – Africa strong - incl. Fragile Countries

Worldwide Chinese Investments & Contracts (2005 - 2016)



Expand to View Graph ↑

\$182.16B Total

All Regions



All Countries



Transport



RESET
FIELDS

2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

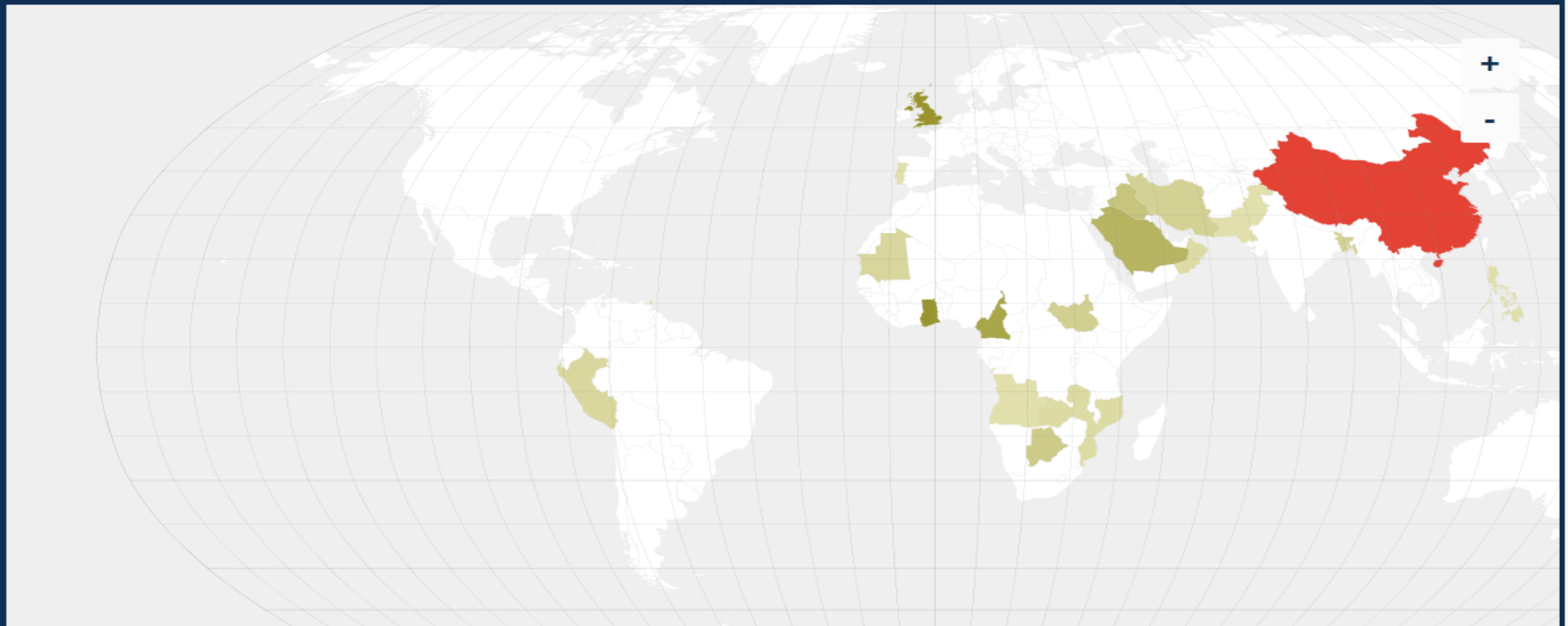
Move the slider to adjust the date range.

To see total investments and contracts in a given year, highlight the timeline through the beginning of the next year.

China abroad – Investments

Utilities – Focus in Africa – incl. Fragile Countries

Worldwide Chinese Investments & Contracts (2005 - 2016)



Expand to View Graph ↑

\$8.38B Total

All Regions ☒

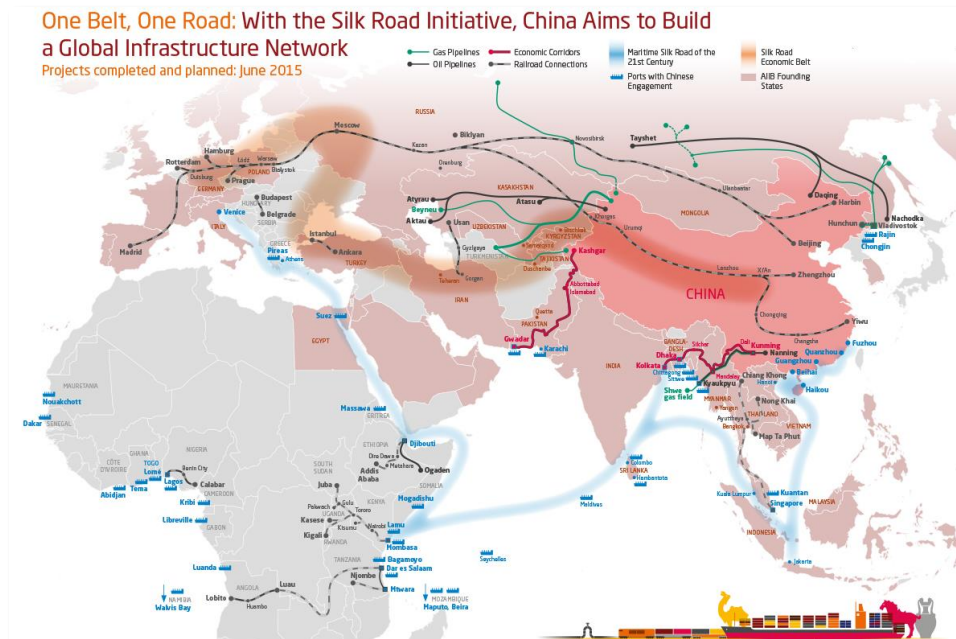
All Countries ☒

Utilities ☒



Move the slider to adjust the date range.
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Silk Road Initiative - One Belt, one Road (OBOR)

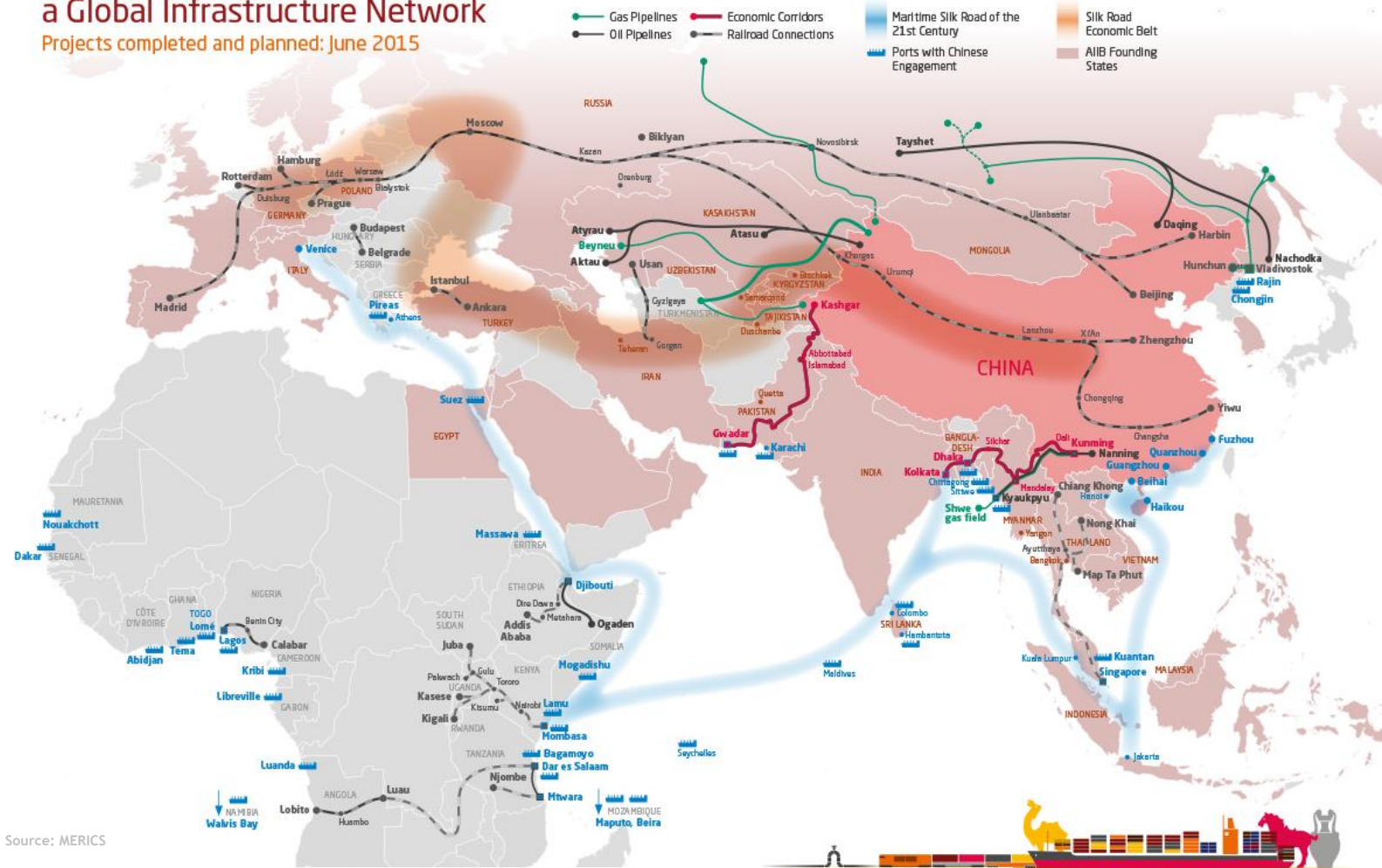


Russia, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan, India, Sri Lanka, Bangladesh, Pakistan, Malaysia, Indonesia, Philippines, Cambodia, Thailand, Laos, Myanmar, Vietnam, Iran, Turkey, Kenya (almost 4 bn people). Kenya and Turkmenistan are the only two non AIIB members.

Contours of One Belt One Road

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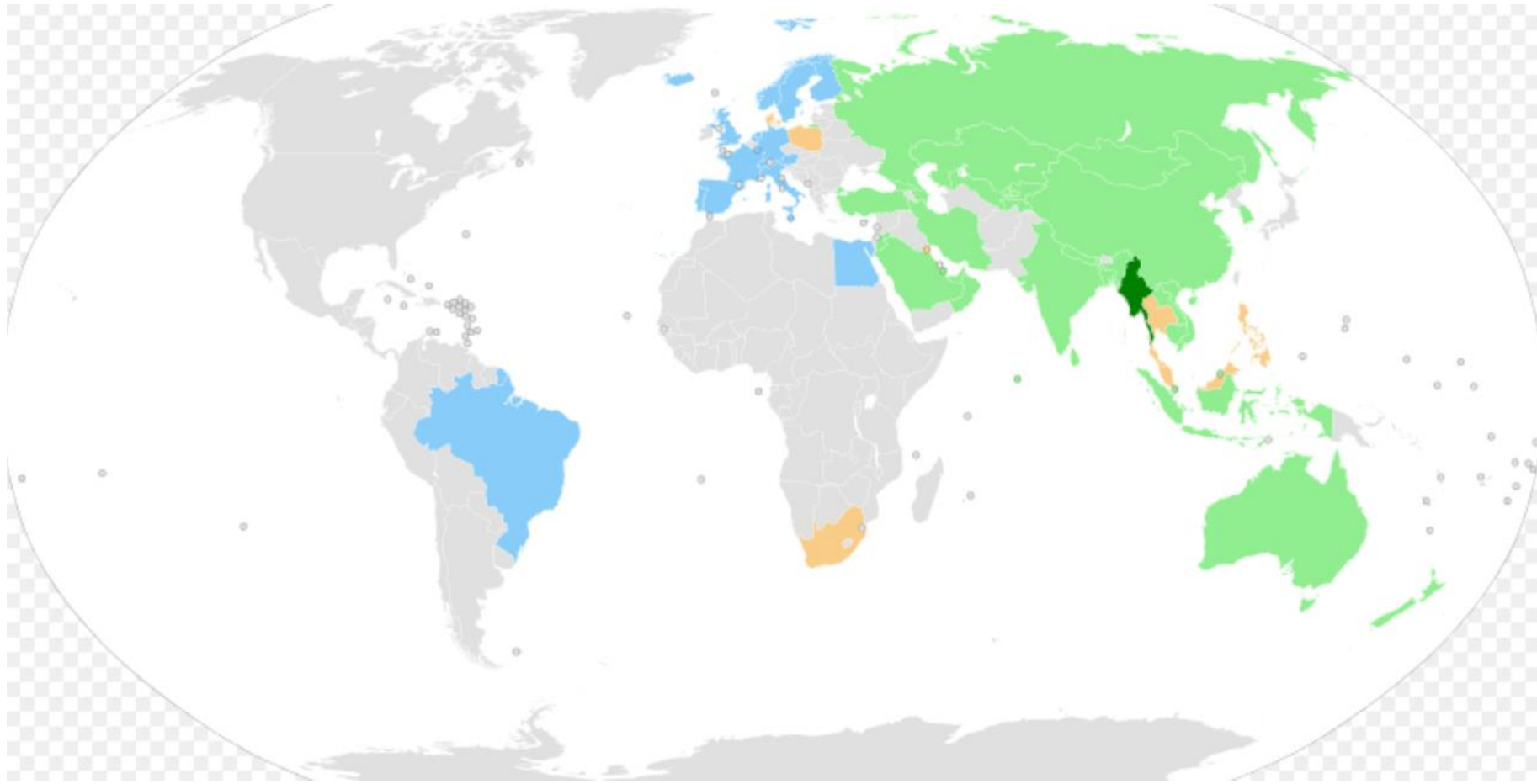


Source: MERICS

Source: The Diplomat, Sept 24, 2015.

18 <http://thediplomat.com/2015/09/chinas-silk-road-initiative-is-at-risk-of-failure/>

Contours of Asian Infrastructure Investment Bank



potential signatories, signatories and parties to the w:AIIB
Signatories (regional) ■ Parties (non-regional) ■ Signatories (non-regional) ■ Potential signatories ■

Summary – AIIB 57 Prospective Founding Members

PROSPECTIVE FOUNDING MEMBERS >>



Source: AIIB website retrieved on April 15, 2015, the day of final decision about all applicants (still valid on July 14, 2015).
www.aiibank.org

Note: In addition to the 57 PFM, Hong Kong, SAR will be part of China delegation for the time being.

AIIB Articles of Agreement (1)

The countries on whose behalf the present Agreement is signed agree as follows:

CONSIDERING the **importance of regional cooperation** to sustain growth and promote economic and social development of the economies in Asia and thereby contribute to regional resilience against potential financial crises and other external shocks in the context of globalization;

ACKNOWLEDGING the **significance of infrastructure development in expanding regional connectivity** and improving **regional integration**, thereby promoting economic growth and sustaining social development for the people in Asia, and contributing to global economic dynamism;

REALIZING that the **considerable long-term need for financing infrastructure development in Asia** will be met more adequately by a partnership among existing **multilateral development banks and the Asian Infrastructure Investment Bank** (hereinafter referred to as the “Bank”);

CONVINCED that the establishment of the Bank as **a multilateral financial institution focused on infrastructure development will help to mobilize much needed additional resources from inside and outside Asia** and to remove the financing bottlenecks faced by the individual economies in Asia, and will complement the existing multilateral development banks, to promote sustained and stable growth in Asia;

AIIB Articles of Agreement (2)

Article 1 Purpose of the Bank

1. The purpose of the Bank shall be to: (i) foster sustainable economic development, create wealth and improve infrastructure **connectivity in Asia** by **investing in infrastructure and other productive sectors**; and (ii) promote **regional cooperation and partnership** in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.

Article 2 Functions

To implement its purpose, the Bank shall have the following functions:

- (i) to promote investment in the region of **public and private capital for development purposes**, in particular for development of infrastructure and other productive sectors;
- (ii) to utilize the resources at its disposal for financing such development in the region, including those projects and programs which will contribute most effectively to the **harmonious economic growth of the region as a whole** and having special regard to the needs of less developed members in the region;
- (iii) to encourage private investment in projects, enterprises and activities contributing to economic development in the region, in particular in infrastructure and other productive sectors, and to supplement private investment when private capital is not available on reasonable terms and conditions; and
- (iv) to undertake such other activities and provide such other services as may further these functions.

Article 3 Membership

1. Membership in the Bank shall be **open to members of the International Bank for Reconstruction and Development or the Asian Development Bank**.

Additional background on AIIB:

Summary – AIIB Key facts

- **BRICS:** all five BRICS countries have joined
- **European Union and Eurozone:** 14 out of 28 EU countries have joined incl. the largest 8 EU economies representing both 90% of GDP of EU and eurozone
- **G20:** 14 out of 19 individual G20 countries have joined (all except US, Japan, Canada, Argentina, Mexico)
- **APEC:** 13 out of 21 individual APEC economies have joined, all except US, Japan, Canada, Mexico, Chile, Peru, Taiwan, Papua New Guinea
- **Islamic Development Bank:** 56 members – AIIB already has one member more, also a **large overlap of IsDB members (21 or 76% of voting rights) with AIIB** – among the TOP 9 IsDB shareholders, 7 joined AIIB (representing 67% of IsDB voting shares) and among the TOP 15, 11 joined (74% of voting rights)
61% of all 34 non-African members of IsDB joined **but only one out of 22 African members** (South Africa)
 - This also means that **AIIB has a strong presence in the Middle East Region** (nine members)
 - Could there be a **strategic partnership AIIB – IsDB** ? **Roles of Saudi Arabia & Iran** (TOP 1 & 3 within IsDB)
- **Sovereign Wealth Funds:** **12 out of the 14 countries with the largest SWF** joined AIIB; among them are Norway, China, Saudi Arabia, Qatar, UAE, Kuwait, Singapore; all 12 account for **90 %** of the TOP 14 (if Canada would be included the figure rises to 98%) – Canada has not applied yet but expressed interest
- **ADB:** all larger regional members have joined except Japan; other regional members that did not join are: Afghanistan, Armenia, Bhutan, Cook Islands, Fiji, Papua New Guinea, *Taipei, China*, Timor-Leste, Turkmenistan, also none of the ADB Pacific Island members joined (Cook Islands are administered by New Zealand which joined AIIB)

Additional background on AIIB:

AIIB and World and AIIB and EU & Eurozone

AIIB members account for the following shares within the World

- **57% of World GDP** in 2013 (of 80% if US and Japan are excluded)
- if Canada, Belgium, Columbia join, the shares would be 60% and 85%
- **65%** of World Population in 2013
- **68%** of World Working Age Population in 2013

AIIB and EU & eurozone

- **European Union: 15 out of 28 members** have been accepted (14) or applied (1 more, Hungary, not decided yet) – among the 15 are the 8 largest EU economies and the 5 largest eurozone economies, both accounting for 90% of GDP share of the EU and Eurozone respectively
- EU Countries that are admitted: Germany, United Kingdom, France, Italy, Spain, Netherlands, Sweden, Poland, Austria, Denmark, Finland, Portugal, Luxembourg, Malta
- **eurozone** countries that are admitted:
Germany, France, Italy, Spain, Netherlands, Austria, Finland, Portugal, Luxembourg, Malta

AIIB and Countries with large Muslim populations

Map: Distribution of Muslim Population by Country and Territory

Only countries with more than 1 million Muslims are shown
2009 Muslim population, the percentage of its population that is Muslim and the percentage of the world Muslim population it represents.



AIIB Members (portion)



Source: Pew Study (2009): <http://www.pewforum.org/2009/10/07/mapping-the-global-muslim-population/>

Additional background on AIIB:

AIIB and Islamic Development Bank (IsDB)

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Largest Members of IsDB that are also Members of AIIB

Region	AIIB Member	Country	% of Voting Shares
Middle East / North Africa	yes	Saudi Arabia	23.52%
Middle East / North Africa		Libya	9.43%
Middle East / North Africa	yes	Iran	8.25%
Sub-Saharan Africa		Nigeria	7.66%
Middle East / North Africa	yes	United Arab Emirates	7.51%
Middle East / North Africa	yes	Qatar	7.18%
Middle East / North Africa	yes	Egypt	7.08%
Middle East / North Africa	yes	Kuwait	6.92%
Eastern Europe & Central Asia	yes	Turkey	6.45%
Middle East / North Africa		Algeria	2.54%
Middle East / North Africa	yes	Pakistan	2.54%
East Asia & Pacific	yes	Indonesia	2.25%
East Asia & Pacific	yes	Malaysia	1.63%
South Asia	yes	Bangladesh	1.01%

China Exports to members of IsDB Islamic Development Bank

Exports to members of IsDB Islamic Development Bank

- China largest exporter since at least 2005, US before
- France shows slowest growth rate despite historic ties to many members
- France growth rate of 5% is only slightly above its low average of 4% overall world wide
- France appears unable anymore to capitalize on its historic ties
- China growth here is above its average (18% vs. 13% worldwide) - same for India (17% vs. 14%)

Exports to members of Islamic Development Bank (56 members) (in \$bn):					
<i>in \$bn</i>	1995	2000	2005	2013	CAGR 1995-2013
China	15.9	24.1	73.7	306.5	18%
India	5.8	7.8	23.2	102.5	17%
France	24.9	24.7	41.2	63.3	5%
UK	14.2	17.1	31.5	52.2	8%
United States	34.4	36.6	51.1	122.0	7%
Germany	27.6	25.6	55.8	99.4	7%
Total	122.8	135.8	276.6	745.8	11%

Additional background on AIIB: AIIB and G77 (Group of 77)

G77 = Group of (most) developing countries – current membership is 134 incl. China

It was established in 1964 by 77 developing countries (hence its name) and the name was not changed despite growing membership that now stands at 134.

<http://www.g77.org/doc/members.html>

Among its 134 members and the 57 AIIB Asian Infrastructure Investment Bank founding members, **there is an overlap of 28 countries**. While that number might sound small, these countries account for **79% (!)** of the GDP of the entire G77 group of 134 countries. This means the AIIB absorbs also a healthy chunk of the economic might of another key group. If China is excluded then the remaining 27 countries still account for **66%** of GDP of all G77 countries excl. China. **China accounts for 50% GDP of all joining 28 countries**. The entire G77 GDP is a little less than a third of World GDP and 44% of World GDP excl. US and Japan.

Incl. China, out of the 19 largest G77 members in terms of GDP, 14 joined the AIIB including all TOP 5: China, Brazil, India, Indonesia, Saudi Arabia. The remaining nine largest G77 countries that also joined the AIIB are UAE, Thailand, Iran, South Africa, Malaysia, Singapore, Philippines, Egypt, Pakistan.

Note: neither Russia nor other former SU countries are G77 members, incl. these in Central Asia except two: Tajikistan and Turkmenistan of which the former one joined AIIB, too.

List of 28 Countries within G77 that joined AIIB - Sorted by GDP in 2013

AIIB Country also in G77	Share of G77 GDP	Share of World GDP
China	39%	12%
Brazil	10%	3%
India	8%	2%
Indonesia	4%	1%
Saudi Arabia	3%	1%
United Arab Emirates	2%	1%
Thailand	2%	1%
Iran, Islamic Rep.	2%	0%
South Africa	2%	0%
Malaysia	1%	0%
Singapore	1%	0%
Philippines	1%	0%
Egypt, Arab Rep.	1%	0%
Pakistan	1%	0%
Qatar	1%	0%
Kuwait	1%	0%
Bangladesh	1%	0%
Oman	0%	0%
Sri Lanka	0%	0%
Myanmar	0%	0%
Jordan	0%	0%
Nepal	0%	0%
Brunei Darussalam	0%	0%
Cambodia	0%	0%
Mongolia	0%	0%
Lao PDR	0%	0%
Tajikistan	0%	0%
Maldives	0%	0%
Total	79%	25%

Additional background on AIIB:

AIIB and SCO Shanghai Cooperation Organization

Another key overlap with another international organization is the one with the **SCO Shanghai Cooperation Organization** that was founded in 1996. http://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation

The SCO holds **60% of the world's natural gas reserves** if Iran is included (it is an observer). The SCO has also been dubbed the “natural gas OPEC” - unlike the oil OPEC it is anchored by a nuclear power on the supply side (Russia).

SCO was as much an idea of Russia to bring together key energy producers and consumers as it was by China to weave the region together. Unlike OPEC, the SCO includes both energy producers (Russia, Iran, Kazakhstan, Tajikistan) and consumers (China, India, Pakistan). All SCO members joined AIIB and except for one observer (Afghanistan), all observers joined as well. The SCO is a hybrid of energy and security cooperation – the US tried ca 10 years ago to become an observer, that request was rejected.

The US attempted in 1991 to become an observer to the European Union via a seat at the European Commission, the answer was “no” as well

The AIIB includes all members of SCO and the largest 8 members of the EU.

List of SCO Members and Observers

All have joined except Afghanistan

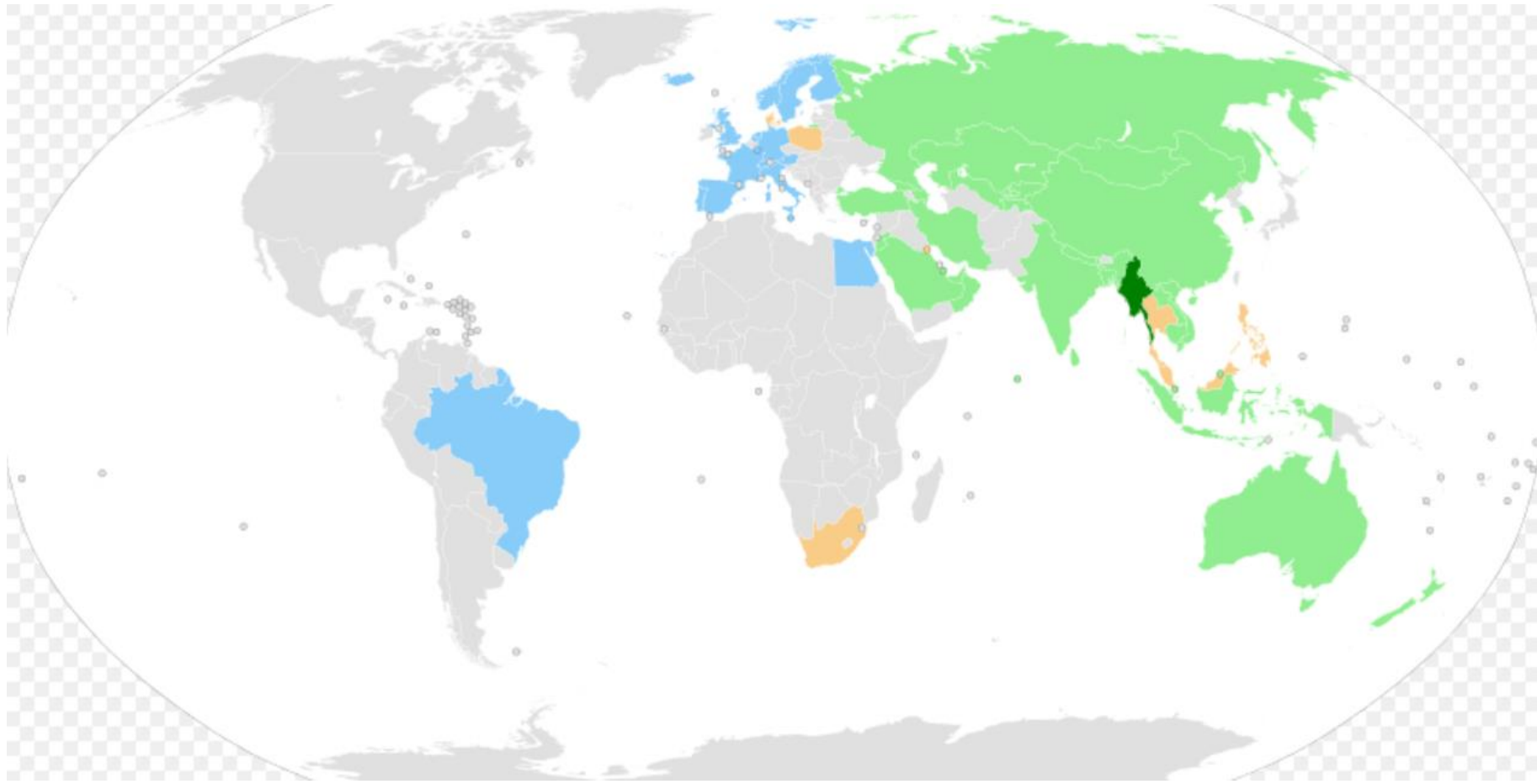
Member States^[2]

Date	Country
26 April 1996	 China
	 Kazakhstan
	 Kyrgyzstan
	 Russia
15 June 2001	 Tajikistan
	 Uzbekistan

Observer States^[2]

-  Afghanistan^[3]
-  India
-  Iran
-  Mongolia
-  Pakistan

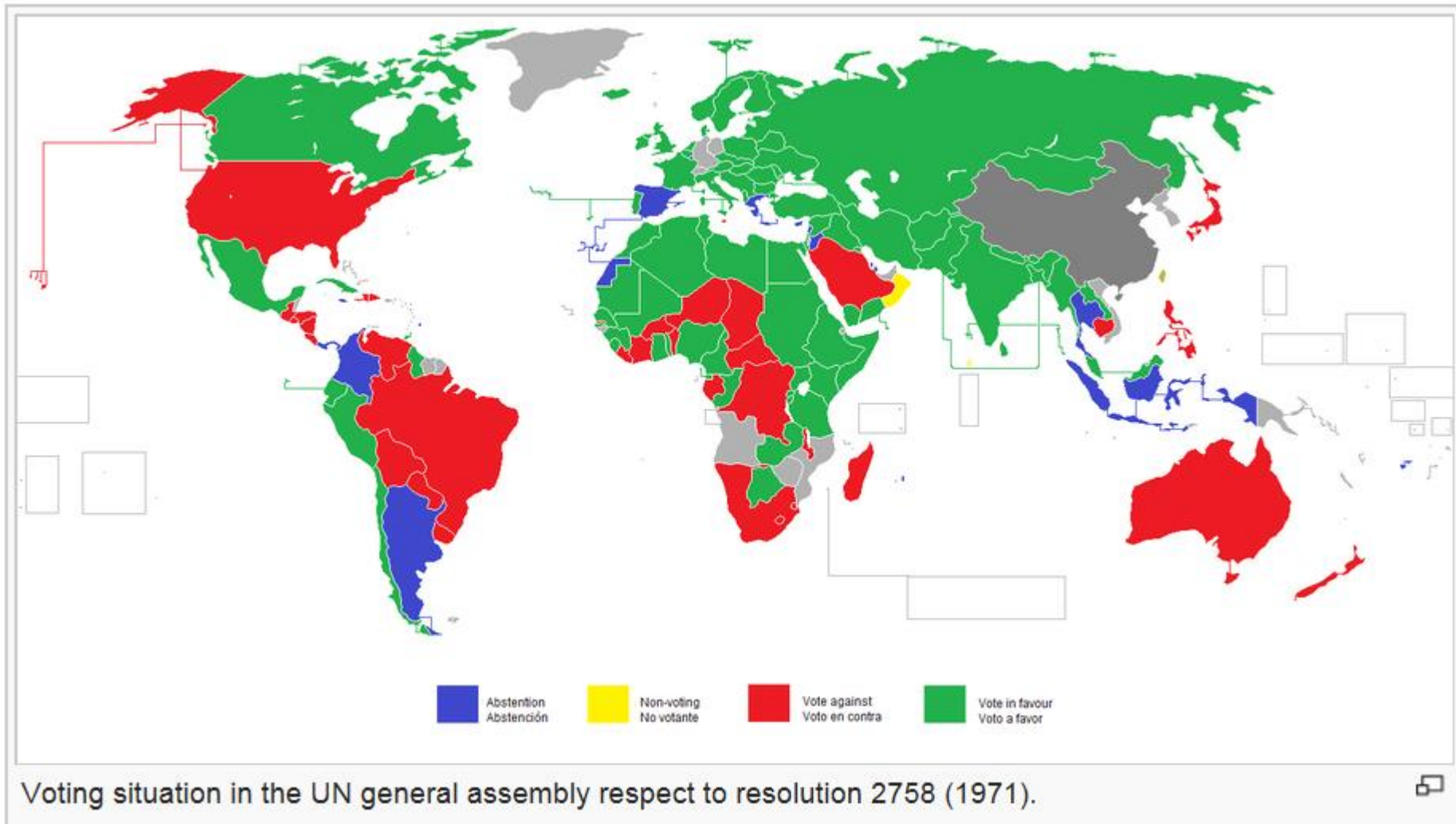
Contours of Asian Infrastructure Investment Bank



potential signatories, signatories and parties to the w:AIIB
Signatories (regional) ■ Parties (non-regional) ■ Potential signatories ■ Signatories (non-regional) ■

Source:
https://en.wikipedia.org/wiki/Asian_Infrastructure_Investment_Bank#/media/File:AoAAsianInfrastructureInvestmentBank.svg

Comparing AIIB membership with vote on UN Resolution 2758 in 1971



Future of Asian Infrastructure Investment Bank

November 10, 2015 6:50 am JST

Beijing-backed lender

AIIB chief reveals global ambitions

SAM NUSSEY, Nikkei staff writer



Jin Liqun © Reuters



LONDON -- The China-backed Asian Investment Infrastructure Bank's global reach could eventually extend as far as Africa and Latin America, the fledgling lender's president-designate told a conference here Monday.

"AIIB can invest in any country," Jin Liqun said, giving the example of funding for irrigation projects in Australia that could improve Asia's food security. Even lending to countries such as Egypt, the first African state to join the bank,

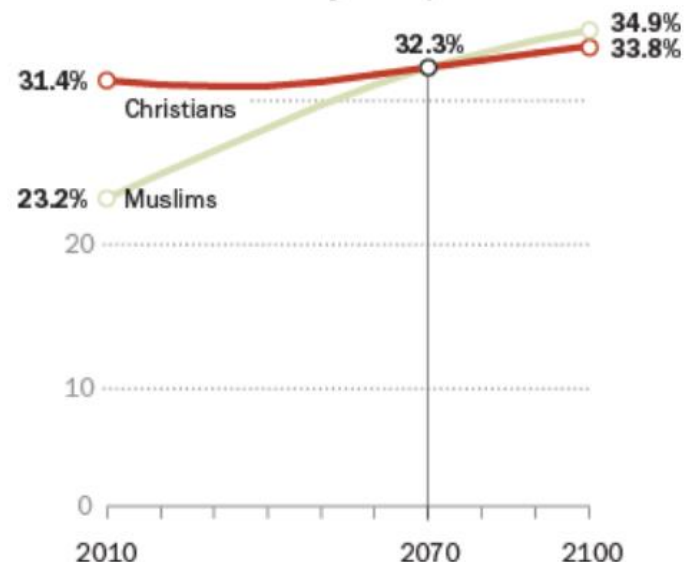
"shouldn't be any problem," he said.

On March 31, Jin was in Kazakhstan's largest city, Almaty. Ten minutes before the midnight deadline, applications to join the bank were still coming in, he said. More than 30 countries that missed the deadline are on the waiting list to join, bringing the potential number of members to 80 or 90. Some member countries, which Jin referred to as "sleeping beauties," have yet to ratify the AIIB agreement, with this likely to take until the end of next year. As new countries come on board, China's voting share would decrease, he said, with the country eventually losing its veto power.

Shifting composition

Long-Term Projections of Christian and Muslim Shares of World's Population

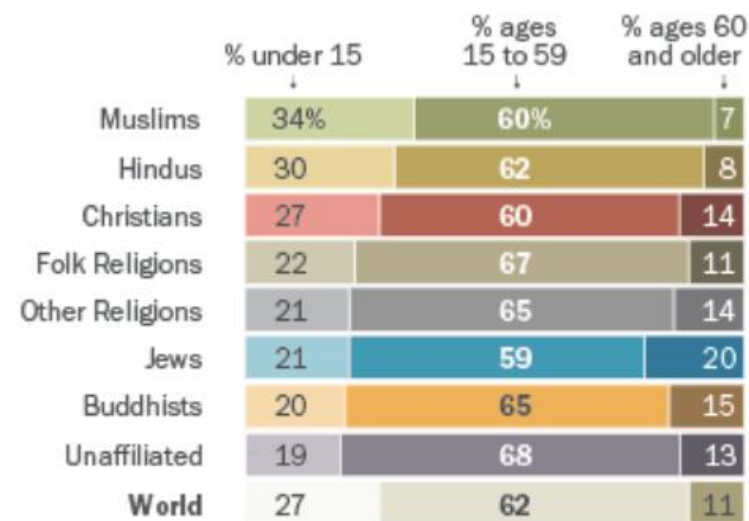
If current trends continue, Muslims would outnumber Christians after 2070



Source: The Future of World Religions: Population Growth Projections, 2010-2050

PEW RESEARCH CENTER

Age Distribution of Religious Groups, 2010



Figures may not add to 100% due to rounding.

Source: The Future of World Religions: Population Growth Projections, 2010-2050

PEW RESEARCH CENTER

Source:

<http://www.pewforum.org/2015/04/02/religious-projections-2010-2050/>

The year 1978 –
why could it matter in more than one way ?