May 2017

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China Economic Quarterly Q1 2017

What to expect from Made in China 2025 and China's first Belt and Road Forum

普华永道

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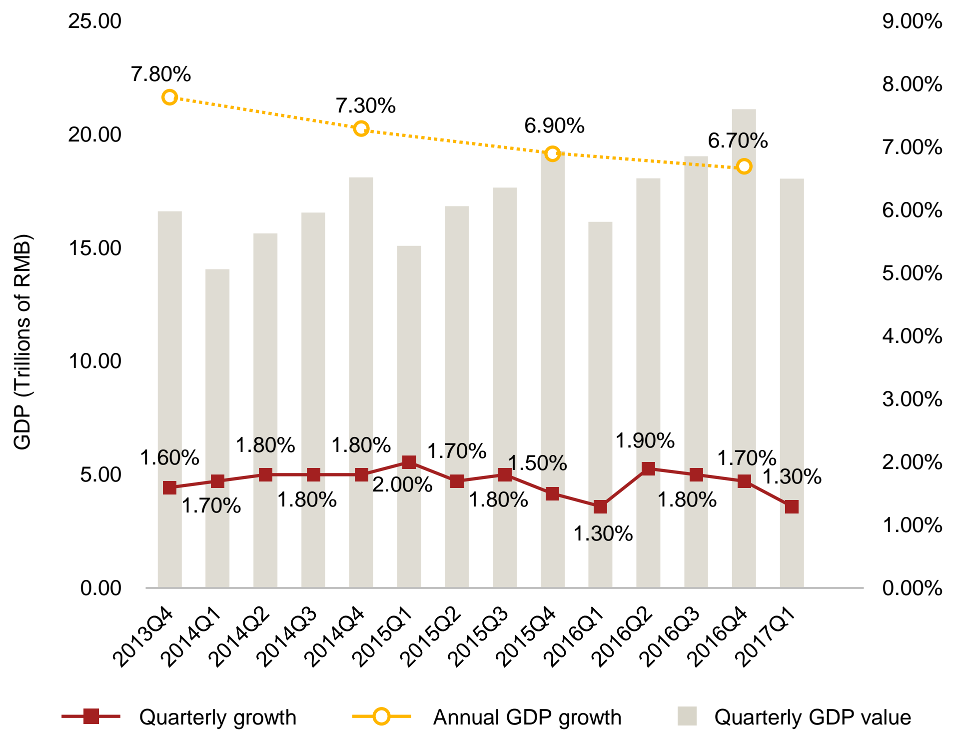
I

Major economic indicators



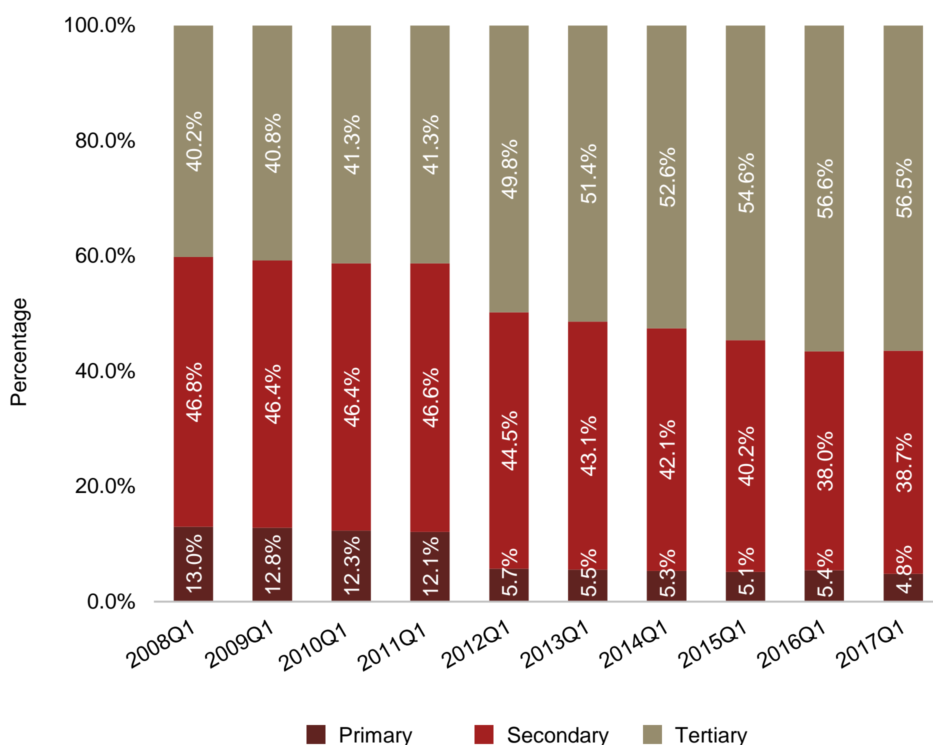
China's economic growth in the first quarter of 2017 delivered a much better result than market expectations. The **GDP** increased by 6.9% year-on-year — the highest growth over the past five quarters — to RMB 18.07 trillion, thanks to more pro-active fiscal stimuli and continued expansionary monetary policies. This has laid a good foundation for achieving the government's goal of "around 6.5%" GDP growth for 2017. In April, the IMF upgraded its GDP forecast for China to 6.6% and 6.2% for 2017 and 2018, respectively.

While this is good news for creating a more amicable macro environment in the run-up to the 19th Party Congress in autumn, there are concerns that some critical reforms, such as dealing with the rising bad debts, will have to give way to maintaining economic and financial stability.

Source of data: Unless otherwise stated, economic data is from the National Bureau of Statistics and financial data is from the People's Bank of China.

The primary, secondary and tertiary (services) industries grew by 3.0%, 6.4% and 7.7% respectively. Services as a share of GDP reached 56.5%, 17.8% higher than the secondary industry, and contributed 61.7% to overall economic growth. Meanwhile, domestic consumption remained another key driver of growth, contributing 77.2% to total GDP growth, relative to 64.6% in the previous quarter. We expect this trend to continue for the whole year of 2017.

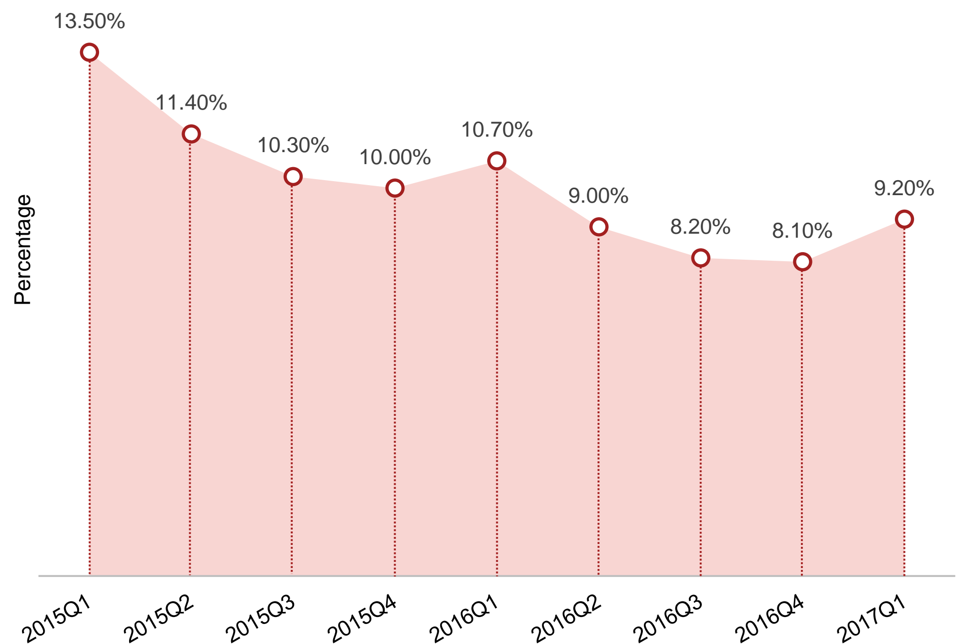
GDP composition



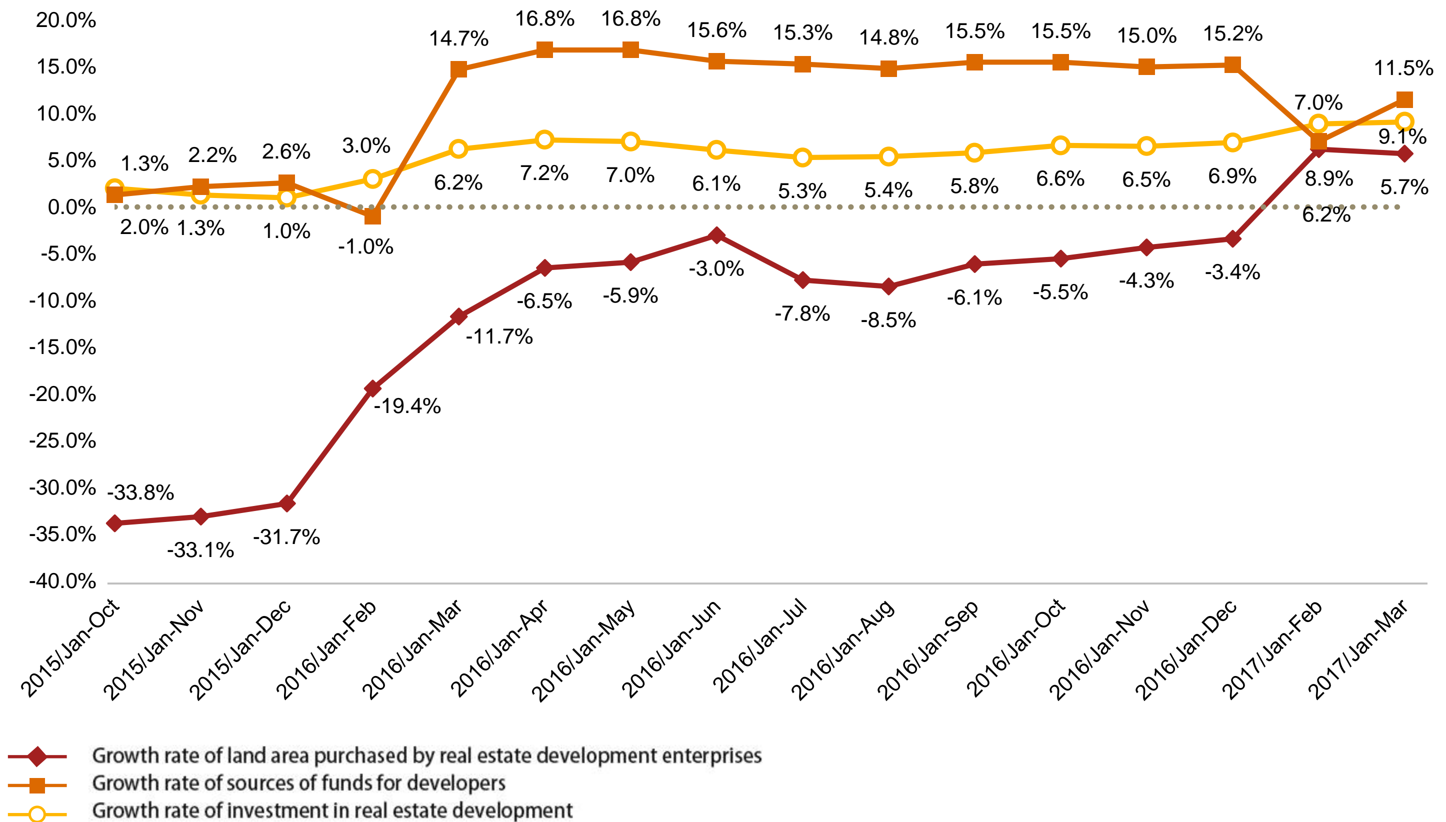
Fixed asset investment remained a key driver of economic growth, increasing by 9.2% year-on-year, 1.1 percentage points higher than that for 2016 Q4, to RMB 9.38 trillion in the first quarter. While state sector investment fell from a growth of 18.7% in 2016 to 13.6% in the first quarter, private investment, accounting for 61% of the total investment, jumped from 3.2% in 2016 to 7.7% in the first quarter. This indicates a recovery of business confidence as private investment is normally much more sensitive to economic changes than state sectors. More specifically, investment in the primary industry, secondary industry and services went up by 19.8%, 4.2% and 12.2% respectively. Services attracted 60% of total investment, while investment in the primary and secondary industries accounted for about 2.5% and 37.5% respectively. This demonstrates that services are playing an increasingly important role in the economy.

In addition, manufacturing (RMB 2.93 trillion), infrastructure (RMB 1.9 trillion) and real estate development (RMB 1.93 trillion) accounted for 72% of total investment. Altogether, these three sectors constituted 86.2% of total investment growth.

Fixed asset investment: accumulated growth



Growth rates in real estate



Despite tight regulations and restrictive policies in the real estate sector across the country, investment into **real estate development** continued its upward trend, rising by 9.1% year-on-year. More specifically, in the first quarter, investment in residential buildings went up by 11.2%, land area purchased by real estate development enterprises rose by 5.7% over the year, sources of funds for developers grew 11.5% year-on-year, and the value of house sales jumped 25.1% over the year. The question remains, however, as to whether the boom will last for the rest of 2017 as more restrictive policies have been rolled out by local governments in response to President Xi Jinping's declaration that, "houses are built to be inhabited, not for speculation."

In the first quarter, China's **fiscal deficit** reached RMB 155.1 billion, the highest level in 20 years. This is partly because of the faster-than-expected dispatch of fiscal expenditure at the beginning of the year, and partly due to tax cuts and reduced fiscal revenues. Most expenditures flowed to livelihood related areas, such as education, healthcare and social security. On tax cut, China plans to cut RMB 380 billion worth of taxes for enterprises on top of a RMB 200 billion fee-cut programme announced earlier, as part of the government's efforts to reduce tax burden of enterprises.

According to Premier Li's government report delivered at the National People's Congress in March, the government plans to have a fiscal deficit of 3% of GDP (RMB 2.38 trillion) for 2017. But officials at Ministry of Finance indicated that the actual level could be well over 3%.

In the first quarter, China maintained its expansionary **monetary policy**. The increments of Aggregate Financing to the Real Economy (AFRE) was RMB 6.93 trillion, RMB 226.8 billion more than the same period last year. Among them, RMB loans were RMB 4.5 trillion, RMB 161.5 billion less than last year; foreign currency-denominated loans (RMB equivalent) were RMB 78.2 billion, and RMB 307.2 billion more than last year. The overall growth rate of AFRE in the first quarter was more than 12%, much higher than the GDP growth of 6.9%.

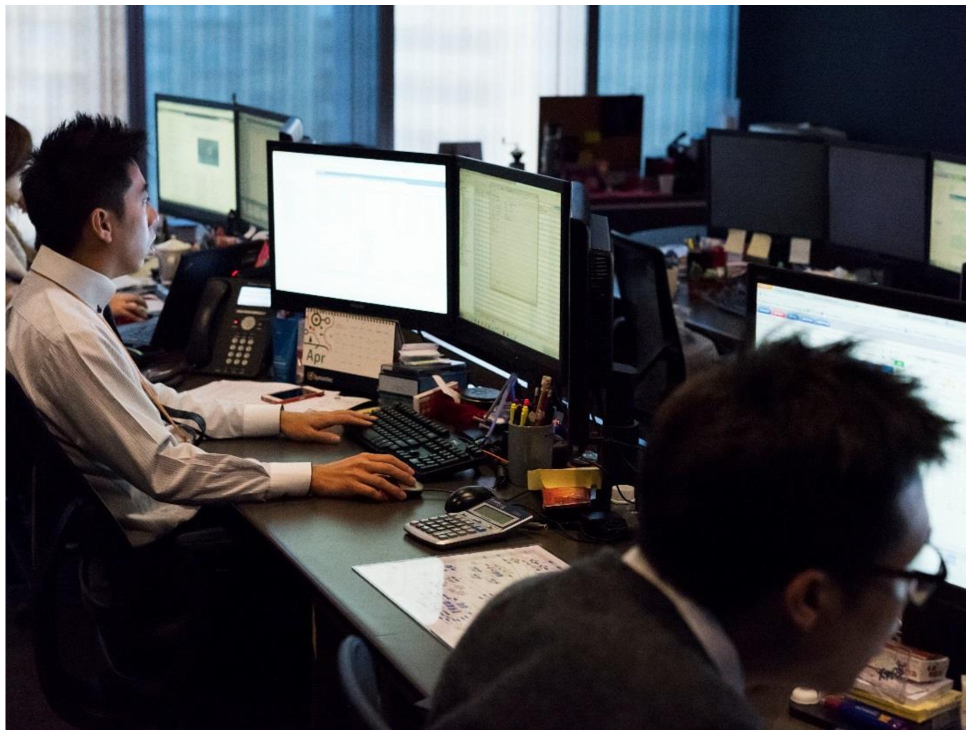
In response to rising financial risks, the government has recently tightened its efforts of "maintaining financial security". The key issue, however, remains whether financial resources could be allocated effectively according to market principles, rather than political considerations.

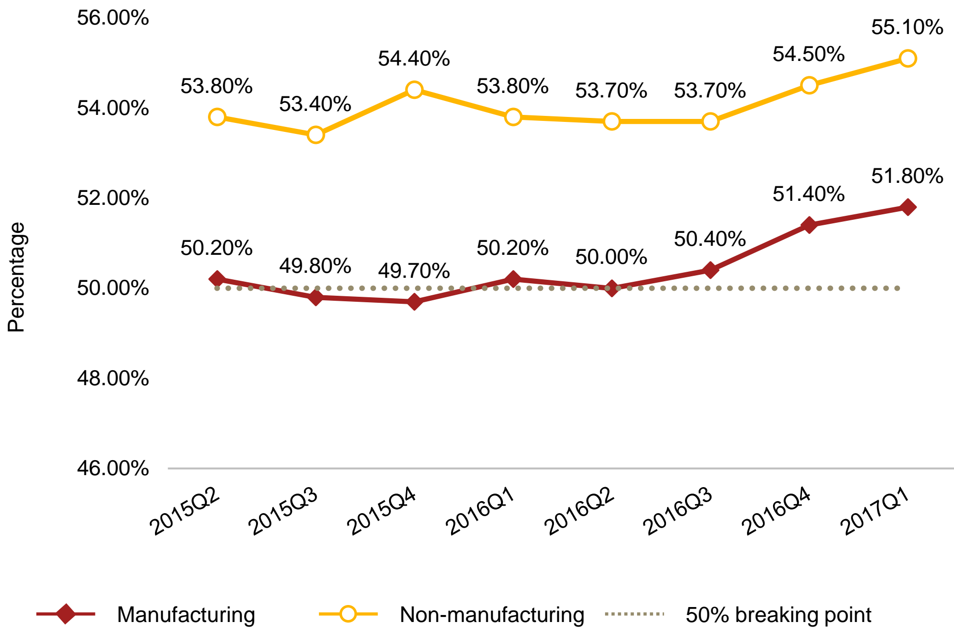
RMB daily middle exchange rate to major currencies

	31/03/2014	30/06/2014	30/09/2014	31/12/2014	31/03/2015	30/06/2015	30/09/2015	31/12/2015	31/03/2016	30/06/2016	30/09/2016	30/12/2016	31/03/2017
GBP/CNY	10.24	10.50	9.99	9.54	9.11	9.64	9.64	9.62	9.29	8.92	8.65	8.51	8.52
EUR/CNY	8.46	8.39	7.80	7.46	6.66	6.87	7.16	7.10	7.33	7.38	7.49	7.31	7.33
USD/CNY	6.15	6.15	6.15	6.12	6.14	6.11	6.36	6.49	6.46	6.63	6.68	6.94	6.89
100 JPY/CNY	5.99	6.08	5.62	5.14	5.13	5.01	5.30	5.39	5.75	6.45	6.60	5.96	6.06
AUD/CNY	5.70	5.81	5.36	5.02	4.71	4.70	4.46	4.73	4.96	4.95	5.09	5.02	5.22

USD/CNY EUR/CNY 100 JPY/CNY GBP/CNY AUD/CNY

For the first quarter, the Chinese currency stayed relatively stable against nearly all major currencies. While the RMB still faces pressure to depreciate against the US dollar in 2017, the expectation has become much weaker after US President Donald Trump indicated in April that a strong dollar was not in the interest of the US economy and the US government would not encourage further appreciation of the dollar. As a result, this cycle of US dollar exchange rate hikes could end soon. Therefore, for the rest of 2017, it is likely the exchange rate between the RMB and US dollar may switch from nearly one-way depreciation to bilateral fluctuations.



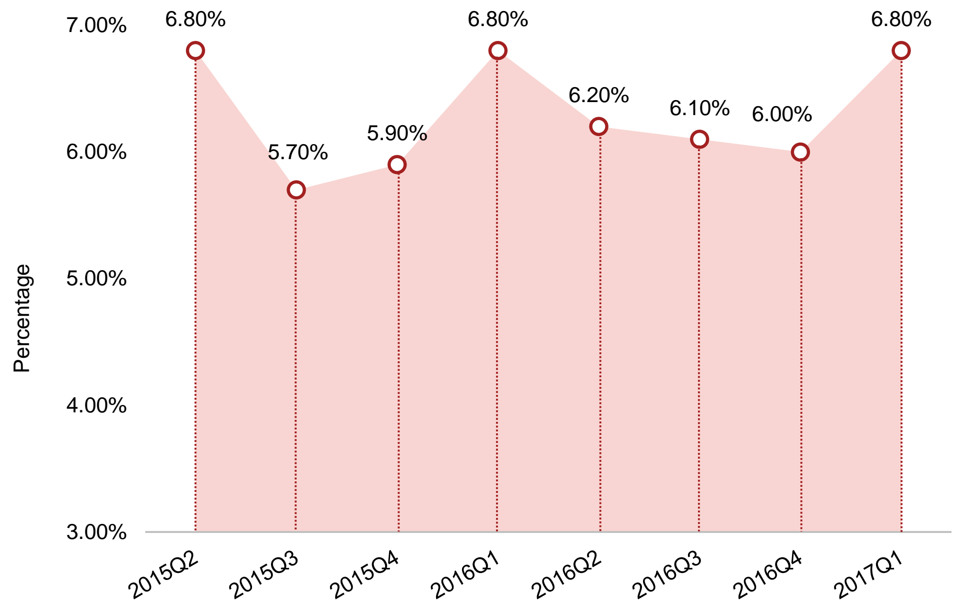


China's manufacturing **purchasing managers' index (PMI)** remained in the positive zone in the first three months of the year, reaching 51.3%, 51.6% and 51.8% respectively, higher than that in the last quarter. This shows relatively strong performance of the manufacturing sector. For Q3 and Q4 of 2015, PMI was below the expansion and contraction threshold of 50%, then turned positive for several months of 2016. This positive trend is likely to continue for the rest of 2017.

PMI for large enterprises was the highest at 53.3% in March. PMI for medium enterprises was 50.4%, but PMI for small enterprises fell below the threshold to 48.6%.

Meanwhile, non-manufacturing PMI continued to outperform that of manufacturing, rising to 55.1% in March. Non-manufacturing includes retail trade, air transport, post, Internet, software and information technology services, financial services, capital market services and insurance.

Growth of industrial added values (for companies over certain scales)



During the first quarter, average growth of **industrial added values** for enterprises above certain scales[1] was 6.8%, slightly higher than previous quarters in 2016. For the three major sectors in the first quarter, mining decreased by 2.4%, manufacturing increased by 7.4% and production and distribution of electricity, heat, gas and water rose by 8.9% year-on-year.

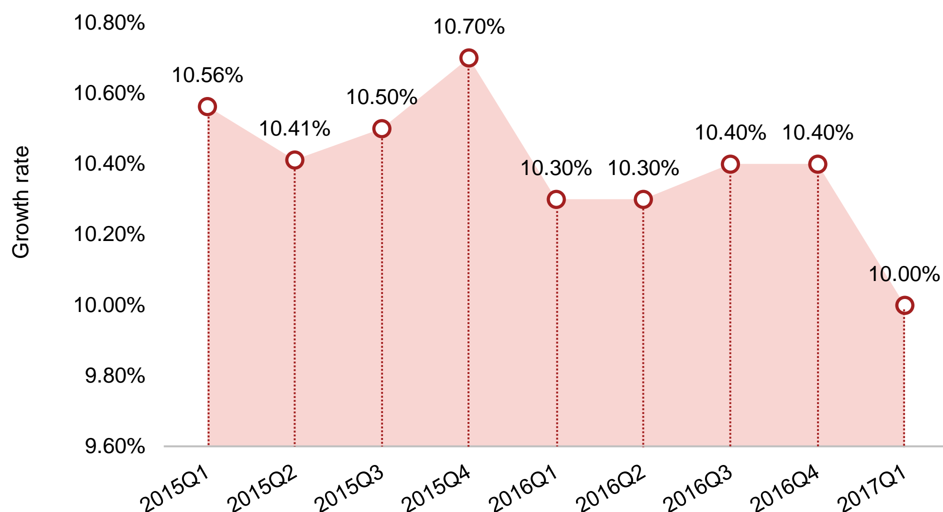
By ownership, joint-stock enterprises (mostly private) and foreign enterprises both had the best performance with 6.9% growth, followed by 6.2% for SOEs, and 0.5% for collective enterprises.

Another encouraging sign was profits for industrial enterprises above certain scales went up by 31.5% year-on-year in the first two months, 23% higher than in 2016. It shows a strong recovery in manufacturing, coinciding with the positive PMI figures.

Meanwhile, China's **energy intensity** fell by 3.8% year-on-year in the first quarter, paving the way for fulfilling its commitment on carbon emission reductions under the Paris Agreement on Climate Change.

[1] "Enterprises above certain scales" is a Chinese terminology that refers to those industrial enterprises whose annual main business revenues are above RMB 20 million.

Retail sales of consumer goods: accumulated growth rate



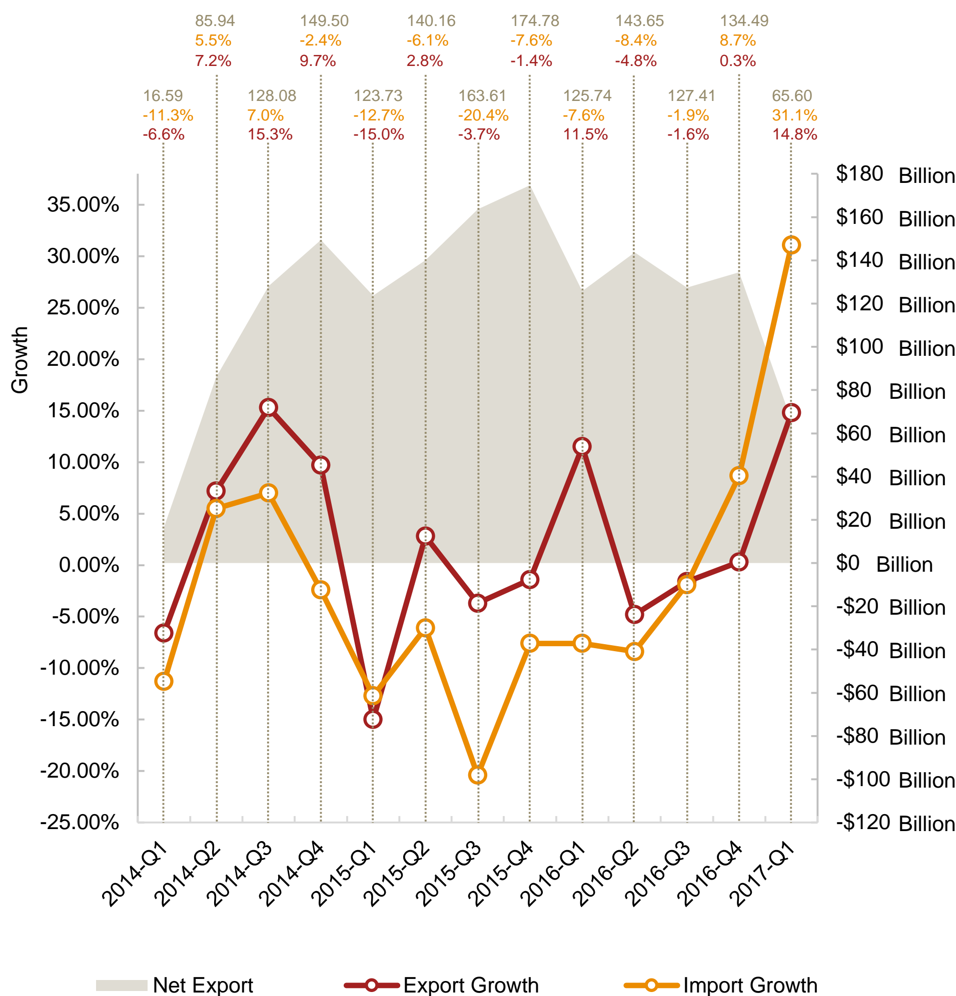
Domestic consumption remained one of the strongest drivers of growth. In the first quarter, total **retail sales** of consumer goods reached RMB 8.58 trillion, increasing by 10% year-on-year. Sales of consumer goods in urban areas grew by 9.7% over a year ago to RMB 7.34 trillion while sales in rural areas went up by 11.9% to RMB 1.24 trillion. Consumption-upgrade types of goods, such as cultural, communication equipment, sports and leisure and furniture and housing decoration, recorded higher growth.

The national **online retail sales** of goods and services enjoyed a much higher growth rate than the traditional channels, reaching RMB 1.4 trillion in the first quarter, 32.1% higher than a year ago. By comparison, retail sales of supermarkets and stores, which remained the bulk of the retail business, went up by only 7.2%.

Auto sales in the first quarter grew by only 2.3% year-on-year, relative to a growth of 13.7% in 2016. The end of stimulus tax deduction policies for low-emission small cars at the end of 2016 was a major reason for the decline in sales. New tax policies will be a key determining factor for growth in this sector in 2017.

In the first quarter, the real per capita **average disposable income** of residents climbed to RMB 7,184, 7% higher than a year ago. Average disposable income for urban residents rose by 6.3% year-on-year to RMB 9,986, and by 7.2% to RMB 3,880 for rural residents.

Quarterly balance of trade



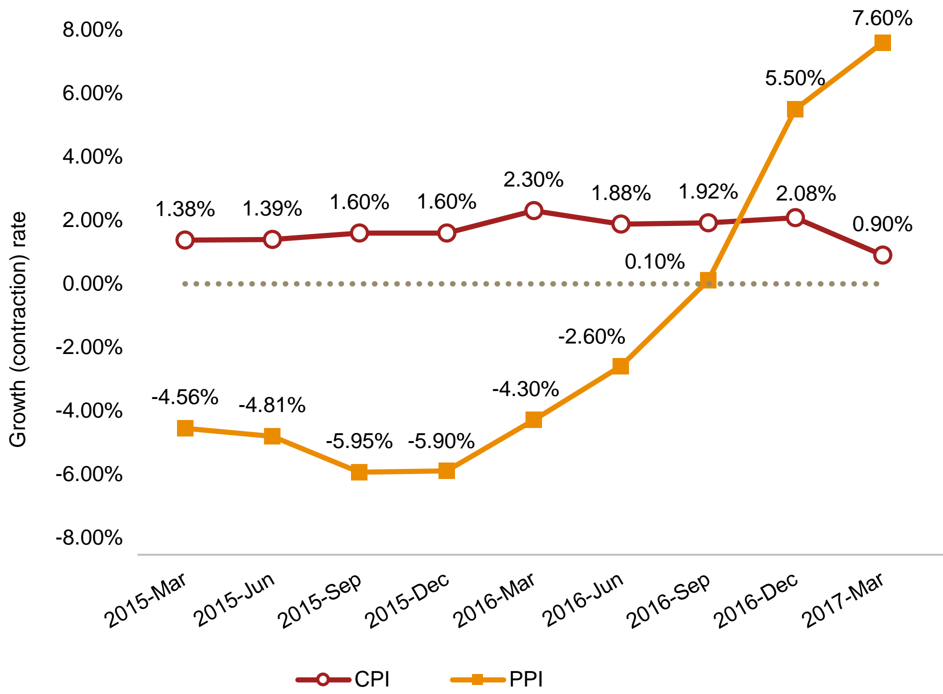
China's **exports and imports** experienced significant improvement in the first quarter, with total values reaching RMB 6.198 trillion, 21.8% higher than a year ago. Among them, exports grew by 14.8% to RMB 3.33 trillion, and imports rose by 31.1% to RMB 2.87 trillion. Due to the sharp rise of imports, the trade surplus was only RMB 455 billion, 35.7% less than the same period of the previous year.

The ratio of general trade to total trade had increased to 56.2%, 0.6% higher than a year ago. Trade conducted by the private sector increased by 22.5% year-on-year to RMB 2.28 trillion, accounting for 36.8% of total trade. The traditional labour-intensive mechanical and electronic products remained the key force, accounting for 58.1% of total exports.

Other than stronger demand, commodity price hike is one of the major reasons for the sharp rise of exports. For instance, the average import prices for iron-ore rose 80.5% year-on-year, for crude oil 64.7%, for refined oil 47%, for copper 31.3% and for soy beans 20.6%.

For the rest of 2017, international trade may perform better than in 2016, but it remains to be seen if the rapid improvement in the first quarter will continue for the rest of the year given the unstable recovery in demand, increasing industrial competition and rising trade frictions and protectionism around the world. It is good to note that the prospect of a potential trade war with the US has moderated after ties between the heads of states have improved recently.

Producer price index and consumer price index



After turning positive in September last year, the **Producer Price Index (PPI)** maintained stable growth in the first quarter, rising by 7.4% on average. From January to March, PPI surged 6.9%, 7.8%, 7.6% respectively. Among them, prices for mining industry jumped by 33.7% and prices for raw materials industry rose by 14.9%.

Compared with the rising PPI, the **consumer price index** (CPI) stayed very stable during the first quarter, rising by 1.4% year-on-year, 0.7% lower than the same period last year. For the first three months, CPI increased by 2.5% in January due to strong demand in the Chinese New Year, 0.8% in February and 0.9% in March. Food and vegetable prices declined and transport and healthcare prices went up slightly. It is likely that CPI will stay stable for the rest of the year.

II

Policy updates

Xiong'an New Area

On 1 April 2017, the Chinese government announced a historic plan to create Xiong'an New Area, a new economic zone about 100 kilometres southwest of Beijing. Xiong'an New Area, which will initially cover around 100 square km and eventually expand to nearly three times the size of New York City, aims to address severe traffic congestion and air pollution in Beijing by curbing the capital's population growth and moving non-capital functions out of Beijing, according to a circular issued by the Communist Party of China (CPC) Central Committee and the State Council. The plan claims to be of national significance, furthering similar efforts beyond the Shenzhen Special Economic Zone and the Shanghai Pudong New Area.

To build Xiong'an New Area into "a demonstration area for innovative development" and a world-class, green, modern and smart city, as desired by President Xi Jinping, it is expected that around RMB 2.5-4 trillion of investments will be needed in the coming decade or so. The plan is expected to generate enormous business opportunities ranging from cement, steel, rail, transportation, power and communication, to hi-tech industries such as 5G communications, bio-medicine, artificial intelligence and Internet finance. If things go well, the New Area could be China's Silicon Valley as most universities and research institutions in Beijing will be relocated there. So far, more than 30 Chinese central SOEs have expressed interest to invest in the region, despite doubts about the long-term sustainability of the plan.

Expanding imports

Chinese Premier Li Keqiang called for greater balance in foreign trade during his visit to Weihai in Shandong province. This could be achieved through importing more high-quality foreign goods that will give Chinese consumers more choices and stimulate domestic companies to produce better products and services. He said China had no plan to intentionally pursue a trade surplus in its foreign trade.

This is consistent with the messages he delivered during the National People's Congress in March 2017 that China would improve quality and efficiency by deepening reform and expanding opening-up initiatives.

This is great news for foreign companies who are eager to tap into China's fast-growing domestic market. China has been in trade surplus with most of its major trading partners for years, triggering increasing frictions with the US and the EU in particular. The announcement demonstrates that the Chinese government is willing to take more self-restraining actions to help its major trade partners, like the US, address the trade deficit issue. It also reflects China's official stance of anti-protectionism and increasing confidence in its trade prospects. China's trade in goods reversed its recent contraction trajectory and jumped by 21% year-on-year in the first quarter of the year.

III

Hot topic analysis

Why is the "Made in China 2025" initiative important to China and foreign firms?

China's first ten-year plan for manufacturing expansion and upgrading — "Made in China 2025" (MiC2025) — grabbed media headlines during the National People's Congress which concluded in March 2017. This was due to the concerns of the EU Chamber of Commerce in China (EUCCC) that the plan was "problematic" and could be used to "discriminate against foreign firms in favour of Chinese competitors." Are these valid concerns? What actually happened?

Background of MiC2025

China is the world's largest manufacturer, producing over 220 categories out of 500 major industrial products, with manufacturing output values accounting for 19.8% of the world's total, according to the Ministry of Industry and Information Technology (MIIT). In China itself, the manufacturing sector plays a significant role, contributing over 40% to China's economic growth and around 90% of China's total exports.

Yet China's manufacturing has been grappling with issues such as lack of innovation, weakness in core technologies, excessive energy consumption and severe pollution. The quality of China's products, even having improved over the years, still lags behind their counterparts from Japan and Germany. Most Chinese companies are still transitioning from Industry 2.0, which is mainly assembly lines, to Industry 3.0, which uses more industrial automation, electronics and IT. China's inadequate investment and financing mechanisms have resulted in poor continued technology education and low conversion rates for patents.

Currently China is encountering pressure from two fronts — neighbouring Asian countries providing low-cost, low-end manufacturing, and high-end, high-worth manufacturing shifting to developed countries. Meanwhile, China's "population surplus" and low cost advantages are quickly fading. Some Chinese manufacturers, for example in the textiles sector, have chosen to relocate to the US, where the overall cost of production is lower than in China.

Ambitious industrial strategy

Against this backdrop, the MiC2025 — the Chinese version of Germany's Industry 4.0 — was drafted by MIIT and unveiled by China's State Council in May 2015. Key elements of MiC2025 were subsequently incorporated into China's 13th Five-Year Plan (2016-2020), further affirming its position as a national strategy.

The MiC2025 initiative calls for increasing China's innovation capability, quality and efficiency, integration of industrialisation and information technology and green development. It also identified ten key sectors for growth[2] . Meanwhile, Internet Plus is another major initiative towards which the government commits to integrating mobile Internet, cloud computing, big data and the Internet of Things with modern manufacturing. The state promotes the digitalisation of the industry with elaborate support programmes relating to robots, intelligent manufacturing systems and transformation and upgrading of industry. A 40-billion-yuan fund for emerging industries will be created.

In the words of Premier Li Keqiang, through implementing MiC2025, China wishes to "seek innovation-driven development, apply smart technologies, strengthen foundations, pursue green development and redouble our efforts to upgrade China from a manufacturer of quantity to one of quality".

Through a "three-step approach", in which ten years are allocated for each phase, China aspires to progressively narrow its gap with developed countries, consolidate its market position and ultimately make China the world's leading power in innovation and technical capacity by 2049 which coincides with the centennial anniversary of the founding of the PRC.

The role of foreign companies

Paradoxically, the Chinese government emphasised from the outset that it would allow the market to play a decisive role in resource allocation during the implementation of MiC2025, while the government would provide "guidance and promotion" to the efforts. In the meantime, China will keep an "open door" to foreign participation.

The seventh of the eight supporting measures[3] for implementing the initiative specifically addresses the issue of further opening manufacturing to foreign investment, where the government vowed to streamline administration, improve business environment on foreign exchange and taxation, reduce barriers to market access, use industrial funds and attract foreign investment in rail, electrical and construction equipment.

In reality, however, foreign companies have encountered certain practices that give them the impression that they are being discriminated against. According to EUCCC, European companies in China are facing increasing pressures to turn over advanced technology in exchange for near-term market access in the new energy vehicle industry. There are also concerns about raising the target of procuring domestic parts to 70% by 2025 in the industrial robotics and information technology sectors, as foreign-invested companies (FIEs) are often not recognised as local Chinese companies and excluded from government subsidy programmes. Policies like this could "severely curtail the position of foreign business", according to EUCCC.

In response, Premier Li Keqiang remarked during the National People's Congress in March that foreign and domestic companies "would enjoy the same preferential policies" under the MiC2025 initiative. While this has helped clarify the situation and raise business confidence, more will need to be done to ensure that the central government policies are faithfully implemented at the local level and in specific projects and industries.

[2] The ten sectors are new advanced information technology; automated machine tools and robotics; aerospace and aeronautical equipment; maritime equipment and high-tech shipping; modern rail transport equipment; new-energy vehicles and equipment; power equipment; agricultural equipment; new materials; biopharma and advanced medical equipment.

[3] The eight supporting measures are: 1) deepening reform in administrative systems and mechanism; 2) creating a fair and competitive market environment; 3) enhancing financial support; 4) expanding the level of support in fiscal and taxation policies; 5) developing a multi-tier personnel training system (especially for SMEs); 6) improving policies for SMEs — providing preferential treatment and setting up SME funds; 7) further opening manufacturing to foreign investment — streamlining administration, improving business environment on foreign exchange and taxation, reducing barriers to market access, using industrial funds and attracting foreign investment in rail, electrical and construction equipment; and 8) strengthening mechanism for organisation and implementation — setting up high-level steering group, and a strategic advisory committee to provide recommendations and assess policy implications.

The way forward

The manufacturing industry has been identified by the State Council as "the backbone of the real economy, the main platform for technology innovation and a key area of supply-side structural reforms". The government has been ramping up efforts to roll out specific industrial development strategies for key sectors. In robotics alone, China's annual spending will expand further and is expected to exceed USD 59 billion by 2020. On financing, the People's Bank of China, MIIT and the three financial regulators who supervise banking, securities and insurance pledged to give manufacturers better access to bank loans, initial public offerings and bond issuance in a joint guideline issued in late March.

Therefore, the stakes are high for FIEs in China. In fact, FIEs have a big role to play in the implementation of MiC2025 initiative, as they have done over the past decades, bringing China to the forefront of manufacturing and international trade. Providing FIEs with a fair, open and predictable business environment will not only add confidence to China's commitment to further opening-up and anti-protectionism but also help to create reciprocal access to overseas markets for Chinese investors. It will be a win-win solution for both sides.

What to expect from China's first high-level Belt and Road Forum?

The Belt and Road Forum for International Cooperation (BRF) will be held in Beijing from 14th to 15th May 2017. According to China's Ministry of Foreign Affairs, 28 heads of States and over 100 ministers will attend this most high-level conference since the grand vision was put forward by President Xi Jinping in 2013. Economic cooperation is expected to be the top priority for this forum.

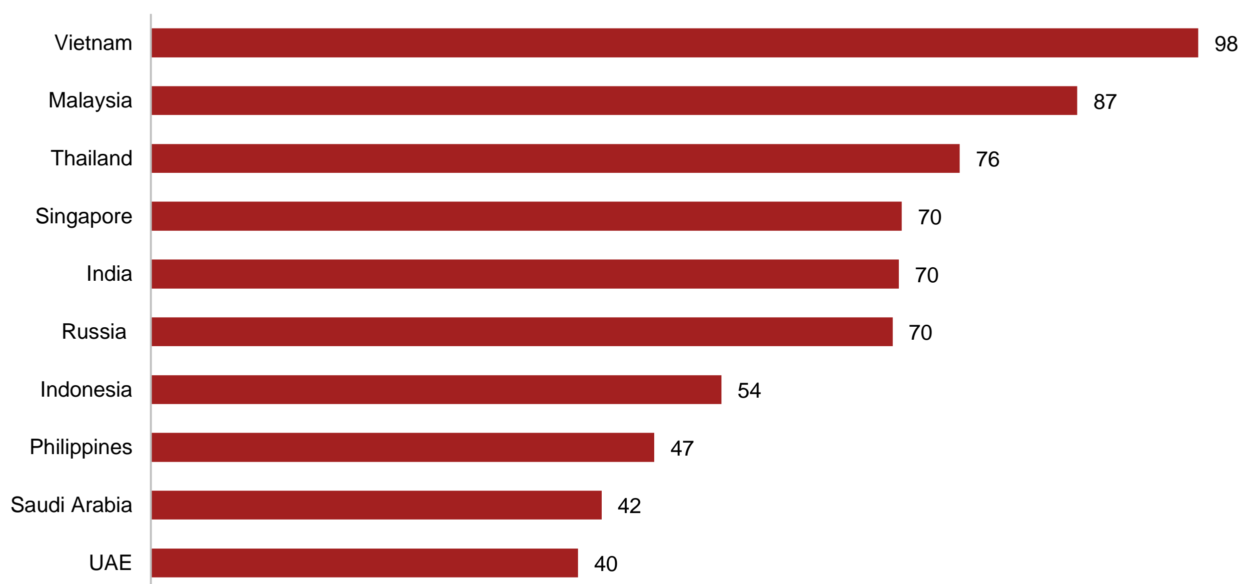
So which areas are likely to achieve breakthroughs?

Signing free trade agreements

According to China State Information Centre, the total value of international trade of the 64 "Belt and Road" (B&R) countries amounted to USD 7.2 trillion in 2016, accounting for 21.7% of the global trade. China's total international trade amounted to USD 3.7 trillion, accounting for 11.2% of the global trade, nearly half the level of the B&R countries. In 2016, China's trade with B&R countries was about USD 950 billion (USD 587.5 billion in exports and USD 366.1 billion in imports), accounting for about 25.7% of China's total trade values.

Statistics suggests that, other than the ASEAN member countries, there is a gap between the economic sizes of major B&R economies and their trade values with China. For example, among the top ten economies of B&R nations, Turkey (ranking fourth), Poland (ranking sixth) and Iran (ranking eighth) are not listed as China's top 10 trading partners. There are six ASEAN member countries among the top ten economies that have the most trade with China, primarily due to the China-ASEAN free trade agreement.

Value of trade with China: Top ten trading nations along the B&R routes (USD billion) (Trade numbers with China, 2016)



Perhaps, signing free trade agreements is the most effective way for China to expand its trade with the B&R countries. However apart from the ten ASEAN countries, the varied levels of economic development of the 54 B&R countries makes it relatively complicated to promote free trade with all these nations at the same time.

In addition, it could be difficult to replicate the China-ASEAN free trade agreement with the other five major B&R regions (namely South Asia, Central Asia, Middle East, Central and Eastern Europe and Russia) as they do not have similar regional cooperation mechanisms like ASEAN. While Central Asian and Central and Eastern European countries are relatively smaller economies, they could be ideal targets for collaboration to launch collective free trade negotiations under the current cooperative mechanism such as the 16+1.

Another approach to promote free trade could be to start negotiations from “fan out from point to area” with the top ten or 20 economies of B&R (although six ASEAN countries are included in the top 20 economies). Despite the differences, the five Middle Eastern countries in the top ten economies could be particularly targeted.

Opening up stock and bond markets

The government work report approved at the National People’s Congress in 2017 made it clear that it supports foreign investment enterprises to list in China’s stock exchanges and issue bonds. However, the reality is that the local stock and bond markets of developed countries are more mature than those of China and hence, multinational enterprises are not keen to be financed in China.

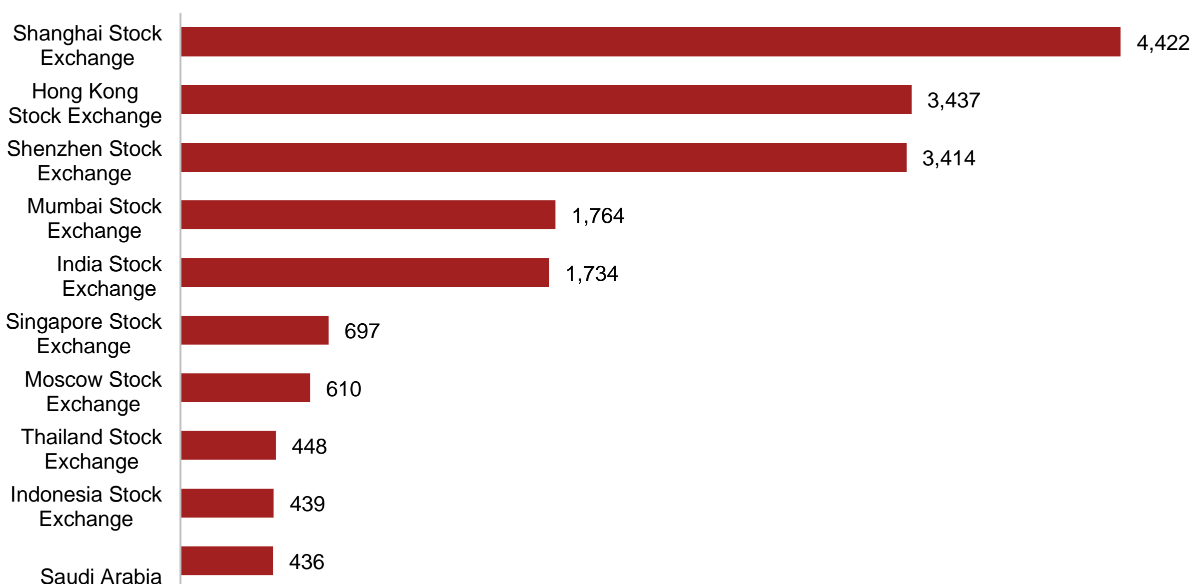
In addition, it may be of greater significance to support enterprises of B&R countries to be listed on China’s stock markets.

The Chinese government has made it clear that it "supports governments and enterprises of B&R with high credit ratings as well as financial institutions to issue yuan-denominated bonds in China”. We expect this area to rapidly develop soon after the BRF summit. In addition to RMB bonds, there might be demand for US dollar bonds as well.

As the data suggests, among all the stock exchanges in the B&R countries, none is comparable with those in Shanghai, Hong Kong and Shenzhen in terms of total market values. If scale of domestic market is taken into account, stock markets of Singapore and India have a comparative advantage among the B&R countries.

The gap between B&R countries and China in the bond market is even greater. There are only 53 countries that have bond statistics, and the total size of their bond market was about USD 7.5 trillion in 2016, while the bond market of mainland China (not including Hong Kong) was worth close to USD 16 trillion.

Top ten stock exchanges along “Belt and Road” countries (USD billion) (as of February 2017)



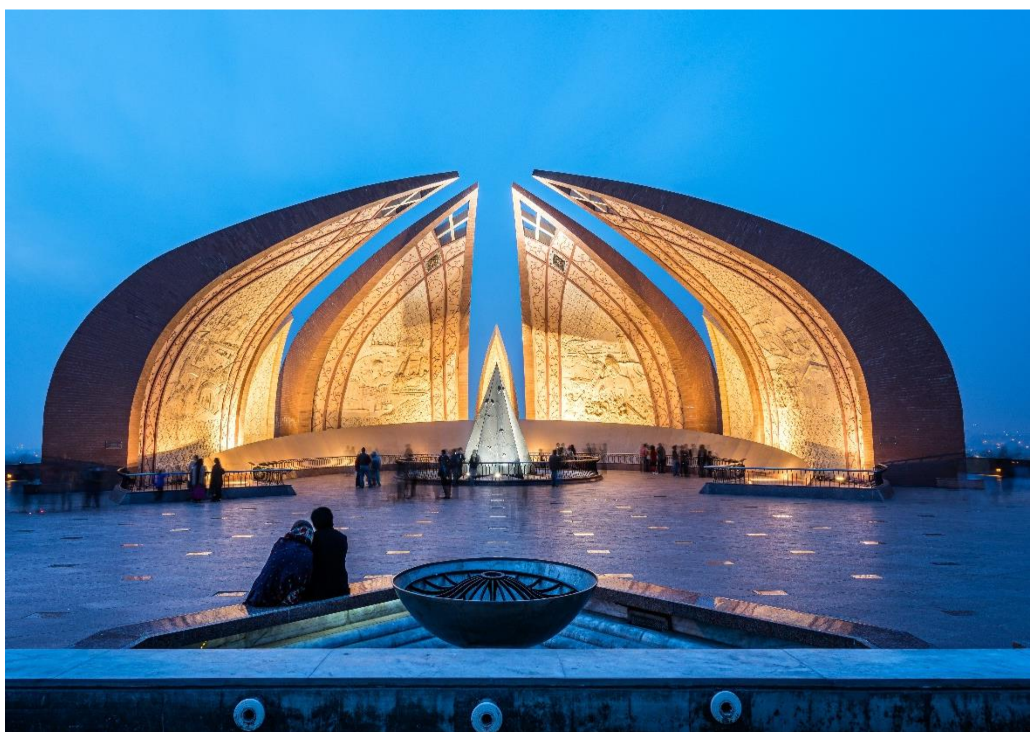
Promoting RMB internationalisation

Just like RMB's internationalisation process, B&R development will be a long and slow process. But these two are the key drivers of China's future economic development and deeper integration with the world. If China's economic globalisation is the bullseye target, then B&R is the arrow shot while RMB internationalisation is like the bow propelling the arrow to hit the bullseye.

For example, oil and gas trade between China and Russia are priced and settled in RMB. As the world's largest importer of energy and minerals, China can promote RMB pricing and settlement with other B&R economies for energy and mineral trade. Oil products are the top trading products for B&R countries at USD 948.7 billion, accounting for 26.2% of total exports of B&R countries in 2015.

Promoting RMB internationalisation in major economies of B&R than in the developed countries is more likely to be successful. This is also consistent with China's overall development goal of first "regionalisation" and then "internationalisation" of the RMB.

The RMB capital that enterprises from B&R countries could gain from China's stock and bond markets can not only be used for trade, investment and commercial activities with China and Chinese enterprises, but it can also circulate within the B&R or other regions. This will greatly promote the economic cooperation between China and these countries. It can also enable the internationalisation of RMB and ease the domestic "asset shortage for investment", providing more investment opportunities for Chinese residents and businesses.



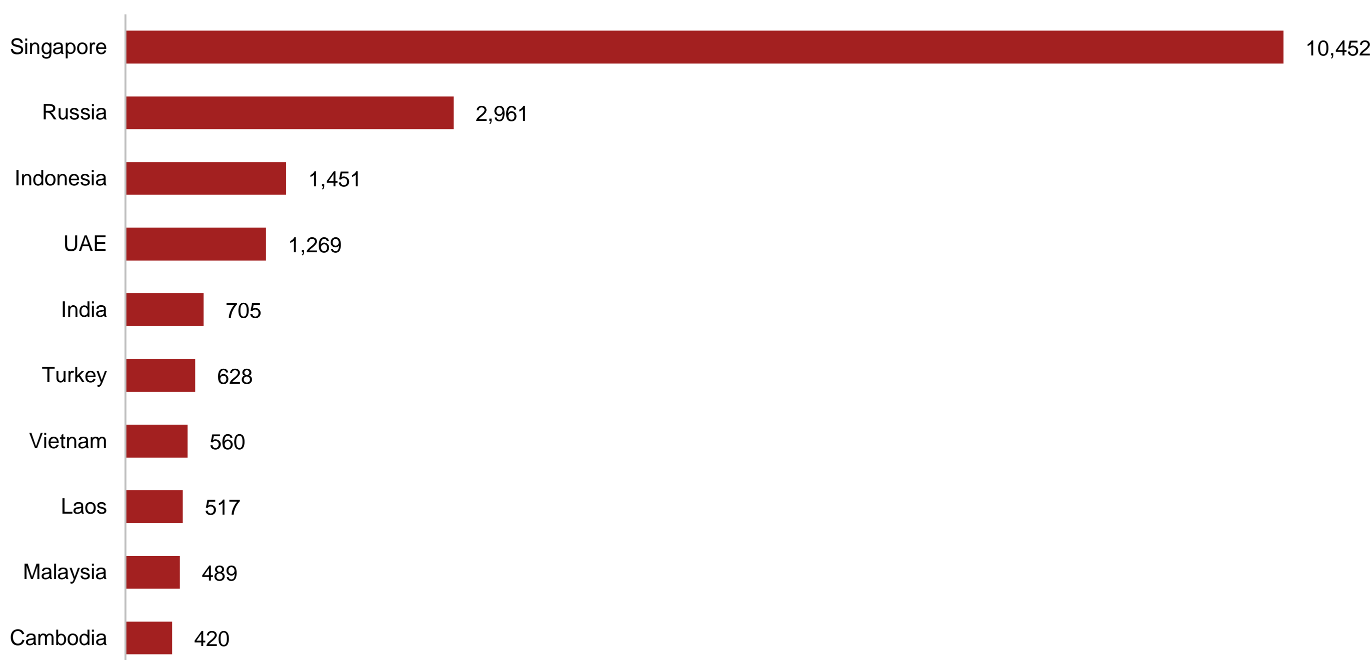
Creating opportunities from preferential policies

In 2016, overseas investment by Chinese companies entered into a "new era". According to PwC statistics, overseas mergers and acquisitions of mainland China's enterprises amounted to USD 221 billion, almost 3.5 times of 2015. As the RMB continued to fall against the dollar in 2016, foreign exchange controls were strengthened and foreign investment approvals slowed down, adversely impacting the willingness of enterprises to expand overseas. China's investment in B&R countries, though recently increased, remained at a low level with the exception of Singapore.

When Chinese enterprises invest abroad, economic returns and risk management are often top priorities. Since the majority of Chinese enterprises have limited international exposure and restricted knowledge of overseas markets, developed countries often become preferred over most B&R economies. Therefore, domestic policy support will be critical in encouraging Chinese companies to invest more in the B&R countries. Of course, these preferential policies must be based on market-oriented commercial activities with clear economic mandates to develop sustainable business. It is worth mentioning that economic interests were the core drivers of the flourishing ancient Silk Road. Without economic interests, the Silk Road could not survive.

As elaborated in the *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* that was released in April 2016, the Chinese Government insists that the B&R initiative will follow market principles. This means the initiative will abide by market rules and international norms while accepting the decisive role of the market in resource allocation and the primary role of enterprises in B&R development. Only by doing so can the B&R initiative sustain long-term development.

China's outward investments to B&R countries (USD million, Top 10)



Authors

Allan Zhang
Chief Economist
PwC China
+86 (10) 6533 7280
allan.zhang@cn.pwc.com

G. Bin Zhao
Senior Economist
PwC China
+86 (21) 2323 3681
bin.gb.zhao@cn.pwc.com

Marketing and Communications

Cynara Tan
Head of Marketing and Communications
Asia Pacific
+852 2289 8715
cynara.sl.tan@hk.pwc.com

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