

MIZUHO CHINA MONTHLY

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March 2018 Edition

- Executive Summary -

China's Economy	Future Outlook for Panda Bonds and Chinese Yuan Financing
<p>In January this year, Mizuho Bank and the Bank of Tokyo-Mitsubishi UFJ issued Panda bonds for the first time as Japanese companies. The governments of China and Japan are also making efforts to improve their bilateral relationship. Under such conditions, Japanese companies are expected to start actively financing Chinese yuan based on the internationalization of the Chinese yuan and the economic growth of China. As the Chinese regulatory agency are opening up the Chinese capital market, there are now more financial options. This article will review the future outlook of Chinese yuan financing for Chinese companies.</p>	
Industrial and Regional Policies	The construction initiative behind the Xiongan New Area plan and prospects for its future
<p>This article examines trends in the regional development strategies that are being developed in association with the Xiongan New Area (XNA) in Hebei Province, a year on from last April's official announcement of its establishment, with reference to media coverage, research papers and other reports that have been published in the interim. It discusses the background to its establishment and its position in national strategy, the advantages it offers and the challenges it faces, and looks at trends among the companies that have set up operations in XNA and the potential for further growth, before examining the prospects for the spread of regional policy and its effects on the economy in the coming years.</p>	

Future Outlook for Panda Bonds and Chinese Yuan Financing¹

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In January this year, Mizuho Bank and the Bank of Tokyo-Mitsubishi UFJ issued Panda bonds for the first time as Japanese companies. The value of the issuance was CNY 500 million for Mizuho Bank and CNY 1 billion for the Bank of Tokyo-Mitsubishi UFJ, both for three years with the interest rate of 5.3%. A “Panda bond” refers to a bond denominated in Chinese yuan issued by a non-resident in the bond market in Mainland China. It is the same type as a Samurai bond in Japan.

Furthermore, there is a sign of improvement in the Japan-China relationship. There are rumors that there will be summit meetings both in Japan and China in 2018, through Prime Minister Shinzo Abe’s visit to China and President Xi Jinping’s visit to Japan. It thus seems possible for a fifth political document to be signed after the Japan-China Joint Statement signed in 2008 regarding the comprehensive promotion of the “Mutually Beneficial Relationship Based on Common Strategic Interests.” Therefore, the Japan-China relationship has grown out of the severe condition recently observed, showing a sign of change for the near future.

Along with the above conditions, the internationalization of the Chinese yuan, and the economic growth of China, it is imaginable for Japanese companies to start financing Chinese yuan in a more-intensive manner. The Chinese regulatory agencies are also opening up the Chinese capital market, expanding financial options. This article will review the outlook for the financing of Chinese yuan by Japanese companies based on the recent environment.

1. Current conditions for direct financing by Japanese companies in Mainland China

China has long been a country where many Japanese companies operate their business. The number of bases of Japanese companies is currently more than 30,000, approximately four times larger than that in the U.S., which ranks second. Due to local regulations, most Japanese companies in China operate as a joint venture with a Chinese company, and they have been dependent on bank loans to finance Chinese yuan and finance their business in Mainland China, backed by China's financial structure centered on indirect financing.

On the other hand, the capital market in China has recently been expanding, with its bond market becoming the third largest in the world, while the stock market is also growing, thanks to the principle of the Chinese regulatory agencies to focus on deregulation and the expansion of the direct financing market. As a consequence, companies are more-actively financing funds through direct methods, such as the issuance of

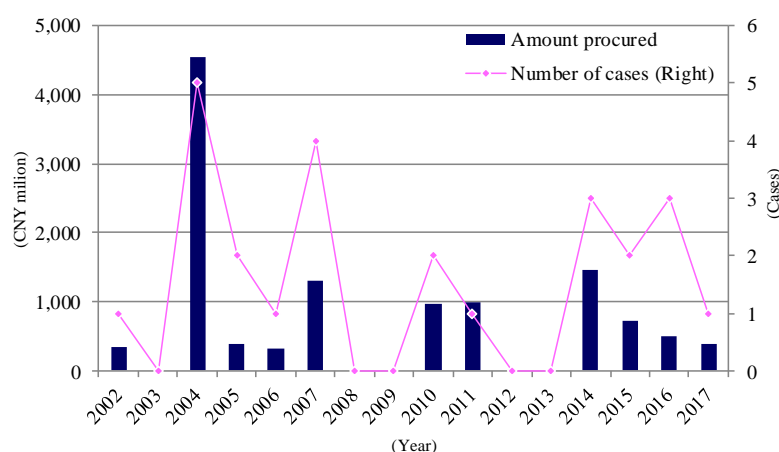
¹ For details about the investment program in the bond market in Mainland China and information regarding the deregulation, please refer to Mizuho Financial Group’s “Business Practices in Chinese Bond Transactions” issued by Kinzai Institute for Financial Affairs Inc. (2017).

corporate bonds and stocks.

The first Japanese company that issued bonds in Mainland China was Mitsubishi Corporation (China), the Chinese subsidiary of Mitsubishi Corporation. It issued CP in 2012, and since then, the number of bonds issued in Mainland China has been steadily growing, such as those by local subsidiaries of the three major Japanese banks and by Japanese auto loan companies. Furthermore, the issuance of ABS has also been increasing, and Japanese auto loan companies have been actively involved in this trend.

Turning to the stock market, IPOs of Japanese companies have been observed intermittently since 2002, and the total cumulative number of listed Japanese companies is currently 25 (Fig. 1). It should also be mentioned that for some listed companies, Japanese companies have already sold their holdings. Along with the growth of these companies and the maturing of the market, direct financing is expected to continue increasing in the future.

Fig. 1: IPOs of Japanese jointly held companies in China



Source: Compiled by the MHSC

2. Issuance of Panda bonds

This section will explain the significance of the issuance of Panda bonds. A Panda bond is different from a corporate bond issued by the Chinese subsidiary itself in that the issuer is the parent company. It can therefore be an important financing method for overseas companies.

First of all, bonds issued in the bond market in Mainland China are mainly held by commercial banks that act as investors, with the same financing base as indirect financing. Therefore, even with financing through bond issuance, commercial banks have to expence their own individual facility. In the case of Panda bonds, the issuer is not the same as the borrower, even though they are in the same group, which can be treated separately in the credit management structure.

Furthermore, some Japanese companies financing Chinese yuan through the issuance of Dim Sum bonds, etc., in the offshore Chinese yuan market, in order to lend funds to their Chinese subsidiaries as parent companies. On the other hand, the financing method in the offshore Chinese yuan market comes with some unstable elements, such as the liquidity level, and, depending on interest rates situation, this may bring negative effects for the issuer. Through the issuance of Panda bonds, companies can access the bond market

in Mainland China with a high Chinese yuan liquidity level, which is an advantage in terms of loans from parent companies to subsidiaries.

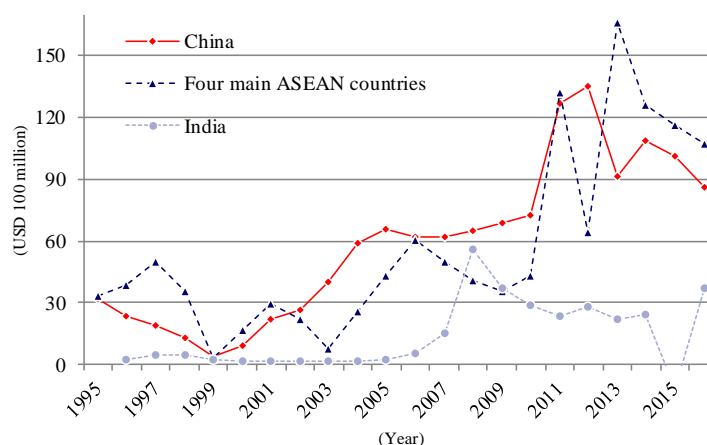
It should also be mentioned as an advantage, as it is often the case that the credit level of the parent company is higher than that of its Chinese subsidiary, which provides opportunities for financing with lower costs, while it is also made possible to include China in the group finance framework with a finance company as the issuer.

Finally, it is however important to note that there is a restriction on Chinese subsidiaries in financing from abroad, and this will not be waived even through the issuance of Panda bonds.

3. Future outlook for Japanese companies regarding their financing of Chinese yuan

It has been said that Japanese companies are starting to hesitate entering Chinese market due to rising salaries and geopolitical risks in China. On the other hand, looking at data on direct investment, a significant amount of funds continues to flow into China through direct investment, although the amount has recently been below that of direct investment in the four main ASEAN countries (Fig. 2). It can thus be said that Japanese companies are generally expanding their business in China.

Fig. 2: Direct investment of Japanese companies



Source: Compiled by the author based on materials provided by JETRO

As was mentioned earlier, the Japan-China relationship has recently been improving since times of sinter condition, and the government has announced its resolve in participating in “One Belt One Road” related projects.² Along with the changes in the Japan-China relationship, it is likely that demand for Chinese yuan will increase gradually among Japanese companies, both domestically and internationally.

Under such circumstances, the capital market in Mainland China has been rapidly opening up through Panda bonds and the Bond-Connect scheme.³

² “Cooperation with the One Belt One Road program in China, the government leaves the decision to individual judgment” *The Nikkei*, December 31, 2017

³ For details about the Bond-Connect scheme, please see “Examination of the significance and meaning of the new scheme to activate the bond market in China” by Ken Muramatsu in *Shukan Kinryu Zaisei Jijo*, issued on July 31, 2017.

It seems like the right time for Japanese companies to take actions in order to build a base to financing Chinese yuan. Japanese companies involved in the financial industry should also expand financial services in Chinese yuan in order to respond to such needs. Given that the Chinese yuan market is being structured so that Chinese yuan can be financed and managed both in the onshore and offshore markets, thanks to deregulation, it is expected that Japanese companies will further expand their financial business operations by actively financing Chinese yuan. Source: Excerpted and modified from the Chongqing Liangjiang New Area website

The construction initiative behind the Xiongan New Area plan and the prospects for its future

A new trigger aimed at promoting the coordinated development of the capital region and regional development

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1. Introduction

It has been almost a year since China announced plans to establish the Xiongan New Area (XNA) as a “strategy crucial for a millennium to come” – on April 1, 2017. Various newspaper articles and reports discussing the background to and aims of its establishment, the companies advancing into the XNA and their future growth prospects and other related subjects have been published in the interim. The Chinese government has yet to release a detailed planning document for XNA construction but several government-affiliated research organs under the direct supervision of the Chinese Academy of Sciences have published multidimensional research papers, and this article will use these as the basis for a discussion of the factors underpinning the establishment of the XNA, provide a regional overview, examine the prospects for and challenges to future growth, and will take a look at how the Chinese government is using the XNA to focus its efforts on a new regional development strategy in a period of economic transition.

The establishment of the XNA is closely linked to strategies targeting the integration and coordination of the national capital region of China, which spans two municipalities (Beijing and Tianjin) and one province (Hebei) (BTH) (**Table 1**). The BTH region is held to be a microcosm of the achievements of economic and social development in China and the problems it has generated and is also the region where the triple dilemma China faces in attempting to reconcile its economy, environment and energy system (the 3E dilemma) is at its most intense, and the implementation of a new breakthrough strategy for this region has attracted significant interest. The following paragraphs look at the background to the establishment of the XNA and its position in national strategy, examines the advantages it offers and the challenges it faces, and looks at trends among the companies that have set up operations in XNA and the potential for future growth, before exploring the prospects for the spread of this regional policy and its effects on the national economy in the coming years.

Table 1: Initiatives and Policy targeting BTH integration

2004	<ul style="list-style-type: none"> The Langfang Accord was reached following the Langfang Conference (in February), which was followed by the inauguration of a system of cooperation for the Bohai Economic Rim to be led by three provinces and cities (in June), and in November the government began the process of formulating the “BTH Metropolitan Area Zoning Plan”.
2005	<ul style="list-style-type: none"> The “Beijing Urban Master Plan (2004-2020)” was implemented targeting economic cooperation and the coordinated development of the Bohai Rim area and the strengthening of industrial development and environmental protection in the BTH region, and proposed efforts to promote the construction of transport infrastructure with the aim of improving access to major cities within a two-hour radius of Beijing.
2007	<ul style="list-style-type: none"> The “BTH Metropolitan Area Zoning Plan” was implemented with the aim of promoting the development of high-tech industries and modern services.
2011	<ul style="list-style-type: none"> China inaugurated its 12th Five-Year Plan (12th FYP), which included proposals targeting the integration of the BTH economy.

2012	<ul style="list-style-type: none"> Tianjin and Beijing formulated and implemented a succession of regional plans for function-oriented zone development as China revealed its strategic goals for sustainable regional development.
2013	<ul style="list-style-type: none"> Hebei Province formulated and implemented a regional plan for functional-oriented zone development and reached a “Cooperation Framework Agreement for 2013-2015” with Beijing.
2014	<ul style="list-style-type: none"> On February 26, a special meeting led by Chinese president Xi Jinping was convened to discuss the integration of the BTH region. It served as the venue for a key discussion on the subject of BTH integration. The Central Economic Work Conference of December focused on the “Belt and Road Initiative”, coordinated development of the BTH region and the construction of the Yangtze River Economic Belt.
2015	<ul style="list-style-type: none"> In February, the coordination of BTH development was again raised at the 9th meeting of the Central Leading Group for Financial and Economic Affairs. In June, the Central Committee of the Communist Party of China and the State Council jointly released the “BTH Coordinated Development Plan”, which clarified China’s decision to accelerate its work to promote the integrated development of the BTH region.
2016	<ul style="list-style-type: none"> In February, the National Development and Reform Commission issued the “Plan for the Economic and Social Development of the BTH Region during the 13th FYP Period” and put forward nine key tasks to be undertaken within the timeframe of the new five-year plan. In December, the Central Economic Work Conference made clear China’s intentions to pursue regional development strategy in the form of coordinated BTH development, the Yangtze River Economic Belt, and the Belt and Road Initiative.
2017	<ul style="list-style-type: none"> In February the Tongzhou District of Beijing, Wuqing District of Tianjin and Langfang City of Hebei Province reached a three-party agreement pledging to focus on the construction of three developmental trial zones, one in each area. On April 1, the Central Committee of the Communist Party of China and the State Council issued a formula notice on the construction of the XNA.

Source: Compiled from official Chinese government websites and various news sources.

2. The Location of the XNA and the importance and goals of its construction

Seen in the light of plans for the coordinated development of the national capital region, the construction of the Yangtze River Economic Belt and the Belt and Road initiative, which constitute its plans for regional development in a new era, the plans for the construction of the XNA are in full alignment with China’s initial strategic priorities (i.e. coordinating development in the BTH region). This is also evident from the geographical location of the XNA in the Baoding area of Hebei. The geographical areas formed by the three counties of Baoding that comprise the XNA (i.e. Xiong, Rongcheng and Anxin) (**Figure 1**) and by the XNA and the two direct-controlled municipalities of Beijing and Tianjin (**Figure 2**) are both almost perfect triangles. The location of the XNA is thus logical when viewed in the context of the locational theories posited by economic geography and regional economics (i.e. Weber’s “locational triangle”¹).

¹Hiroyuki Ishida “An Introduction to Regional Economics” (in Japanese), Yuhikaku, 2002. Yongyu Shao “Research on Urbanization and Industrialization in China: Spatial and Historical Developments in the face of Resource and Environmental Constraints” (in Japanese), Taga Shuppan, 2012, etc.

Figure 1: The Location of the XNA in the Baoding City of Hebei

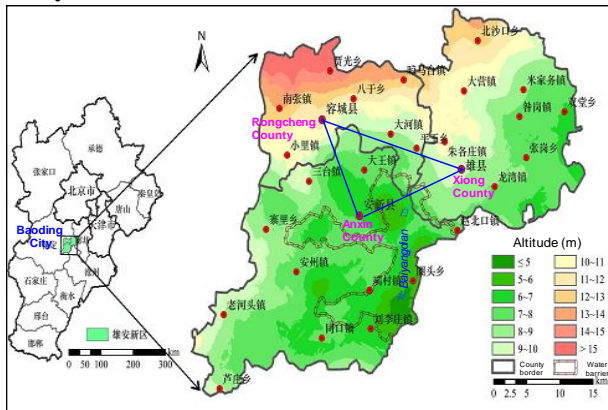
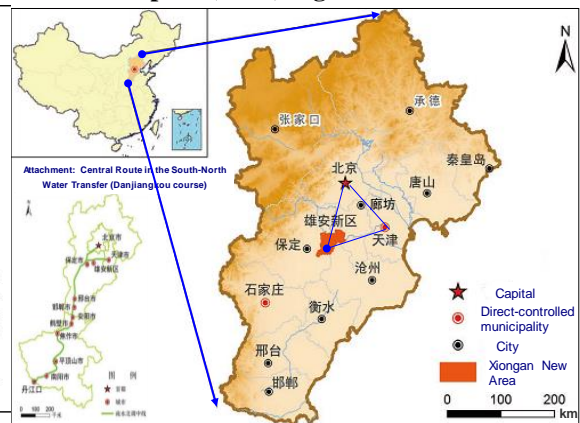


Figure 2: The Location of the XNA in the national capital (BTH) region



Source: Excerpted and adapted from the Chinese Academy of Sciences, Institute of Geographic Science and Natural Resources Research and University of Chinese Academy of Sciences, College of Resources and Environment (Luguang Jiang, et al.) “Land use patterns of the Xiongan New Area and comparison among potential choices of start zone”, and Chinese Academy of Sciences, Institute of Geographic Science and Natural Resources Research, Issue 39 of “Environmental Science” (June 2017)

Source: Excerpted and adapted from the Chinese Academy of Sciences, November 2017 (XNA Special Edition)

Preferential support policies have yet to be put into place for the XNA, but the Chinese government has made it clear that the XNA will stand alongside Shenzhen Special Economic Zone and Shanghai Pudong New Area as a special economic and development zone. The planning scope of XNA in the Baoding area of Hebei involves the three counties of Xiong, Rongcheng and Anxin and part of their surrounding area. Initially it will cover an area of approximately 100 square kilometers, with plans for further expansion to 200 square kilometers in the mid-term and eventually to 2,000 square meters, which equates to the scale of the Shenzhen Special Economic Zone.

Regarding its decision to include Xiong county, etc. in the planning area for XNA, the Chinese government has stated that it lies in the hinterland of the development area comprised by Beijing, Tianjin and the Baoding area of Hebei, that it offers convenient transportation and a favorable ecological environment, and that it remains under-developed meaning that there is ample room for new development.

In terms of economic scale, in 2016 the three counties recorded the following gross regional product (GDP) figures: 10.114 billion yuan (or around 162 billion yen) for Xiong, 5.94 billion yuan for Rongcheng, and 4.01 billion yuan for Anxin for the first eleven months of the year, putting the total at roughly 20 billion yuan. This is significantly lower than the GDP figure recorded by Pudong New Area, which was 873.2 billion yuan in 2016 (Table 2 and Table 3).

Table 2: An Overview of the three counties that comprise the XNA (2016)

County	Geographical location	Area	Population	GDP	Total retail sales	Fixed asset investment
		km ²	Ten thousand people	CNY 100 million		
Rongcheng	Approximately 120 km from Beijing and Tianjin and 50 km from Baoding	314	26	59.4	44.9	60.9
Xiong	Approximately 108 km from Beijing, 100 km from Tianjin and 70 km from Baoding	524	38	101.14	53.5	69.86
Anxin	Approximately 162 km from Beijing, 45 km from Baoding and 187 km from Shijiazhuang	738.6	39.3	40.01	33	69.3
XNA (Three counties combined)	Approximately 100 km from Beijing and Tianjin (Xiong County), and 45 km from Baoding (Anxin County)	1576.6	103.3	200.55	131.4	200.06

Source: Compiled from related regional statistics and Internet reports. The fixed asset investment figure for Rongcheng is for 2015.

Table 3: A Comparative Overview of XNA, Shenzhen Special Economic Zone and New National Areas in China's direct-controlled municipalities

New Area	Shenzhen Special Economic Zone	Pudong New Area	Binhai New Area	Liangjiang New Area	Xiongan New Area
Economic zone location	Pearl River Delta	Yangtze River Delta	BTH (national capital area)	Yangtze River Economic Belt	BTH (national capital area)
Area (km ²)	1996.85	1210.41	2270	1200	1576.6
Year of establishment	1980	1992	2005	2010	2017
Strategic positioning	Economic opening	General reform, financial development, internationalization	Gateway to economic opening of northern China, a base for high-end modern manufacturing and R&D, and physical distribution center	A testbed for general urban-rural reform and center for major modern manufacturing and service industries in China's interior	Searching for a means to ease over-concentrated urban functions, achieve ecological development and a new model of development for heavily populated regions
Background to establishment	The first pilot project to be undertaken in the early stages of economic opening	Undertaken as a means of expanding and extending the range of economic opening	Established in the areas of northern China and the vicinity of Beijing where most progress had been made on economic opening	Constructed in China's interior to include its fourth direct-controlled municipality, i.e. an area where most progress had been made on economic opening	The year vital to the coordinated development of the BTH region and the start of a new era
Population at establishment	31	143.75	140	205	103.3

New Area	Shenzhen Special Economic Zone	Pudong New Area	Binhai New Area	Liangjiang New Area	Xiongan New Area
(10,000 people)					
Current population (10,000 people)	1191	504.44	299.42	350	103.3
GDP at establishment (CNY 100 million)	8.3	60	1608.63	1001	200.6
Current GDP (CNY 100 million)	19300	8782	7000**	2020*	200.6

Source: Comprised from various regional statistics. Figures marked with an [*] are actual figures for 2015; those marked with a [**] are for 2017. Note that, to date (i.e. as of April 2017), nineteen state-level new areas (excluding Shenzhen) have been built in China, but only Shenzhen Special Economic Zone and Pudong New Area are discussed here in the context of the XNA.

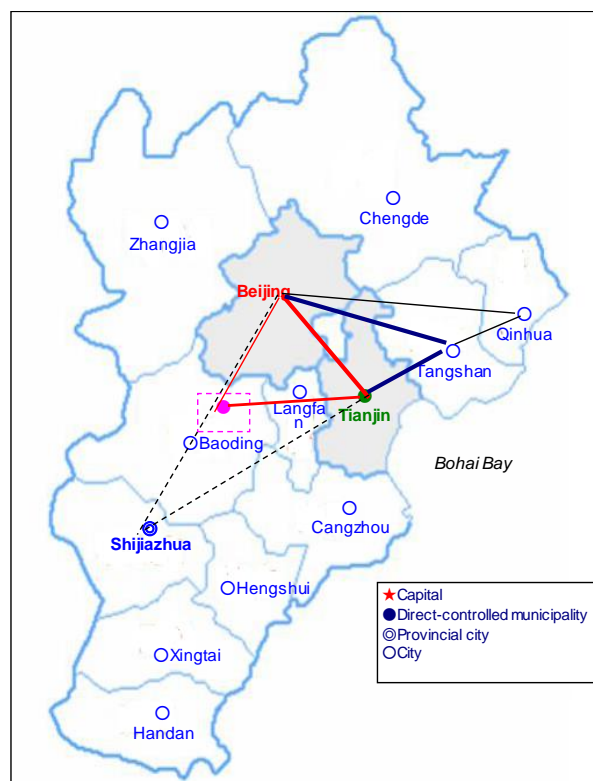
The XNA is being constructed at the behest of Chinese President Xi Jinping. The aim of the XNA is to promote the integrated development of the BTH region as a single economic zone comprising the three areas of Beijing, Tianjin and Hebei, to facilitate the decentralization of economic and political functions that are currently concentrated in Beijing, and to provide an engine for the development of new industries. Specifically, the government has cited seven priority undertakings in connection with the XNA: (1) construction of a smart, ecologically friendly city; (2) improvement of the ecological environment; (3) development of high-tech industries and the cultivation of new industries; (4) provision of high quality public services and the construction of high-quality public facilities; (5) construction of a highly convenient transport network and the establishment of an environmentally friendly transport system; (6) institutional reform to increase market vitality; and (7) the promotion of market opening across all sectors of the economy. China will need to undertake these tasks not only in the national capital region but in regions across the country, and the XNA, as a new urban development strategy that will serve as both a pilot and a trigger for regional economic development in a new era, thus bears watching.

As of April 1, 2017, the Chinese government has announced and constructed a total of nineteen state-level new areas. From the outset, however, the XNA has been discussed and positioned as a strategy in a class of its own and is thus comparable to Shenzhen, the first special economic zones to be built in China, and Shanghai's Pudong. **Table 3** offers a simple comparison of the current status of five key areas, including Shenzhen Economic Zone, and demonstrates that, at establishment, the XNA already compares favorably with the other new areas in terms of its initial area and population. Its economy (regional GDP) falls short of those of the Binhai New Area and Liangjiang New Area, the two new areas that are centered around the old cities in which they are located (Tianjin and Chongqing), but is much larger than the economies of both the Shenzhen Special Economic Zone and Shanghai Pudong New Area at establishment. The most critical factor to note is the differences in historical backdrop and strategic positioning for each of these state-level new areas. Shenzhen Special Economic Zone, for example, was established to serve as an advance guard

and stand at the forefront of economic opening in China, whilst the Pudong New Area was set up to promote general reform, financial growth and internationalization. The construction of the XNA during a period of economic transformation in which China is attempting to adjust to what amounts to a “new normal”, encompasses several overarching missions including the easing of over-concentrated urban functions, environmentally friendly (sustainable) growth, and the search for a new model of development for densely inhabited regions, and it is only natural that China is hoping that it will a new breakthrough in BTH coordination.

These aspirations are evidenced by the geographical positioning of the XNA in Hebei (**Figure 3**) and the blueprint for urban development in Beijing (**Figure 4**). The XNA is located roughly 100 kilometers from Beijing and Tianjin, which gives it a geographical advantage over the Binhai New Area in terms of promoting the coordinated development of the national capital region. Viewed in terms of the links with Shijiazhuang, Hebei’s capital, to the southwest, the choice of location can be seen as a powerful move by the government. Shijiazhuang is the most powerful provincial city in Hebei, which, given earlier efforts to promote the development of Henan Province (i.e. the development of China’s central region) and northern China, argues that the establishment of the XNA can be seen as an attempt by China to balance its regional development strategies. The Beijing Urban Master Plan (2016-2035), which was formulated in 2017, is a long-range blueprint for urban development that incorporates the XNA, Shijiazhuang and the historically important city of Handan. It is for this reason that the construction of the XNA is being described as a “strategy crucial for a millennium to come”.

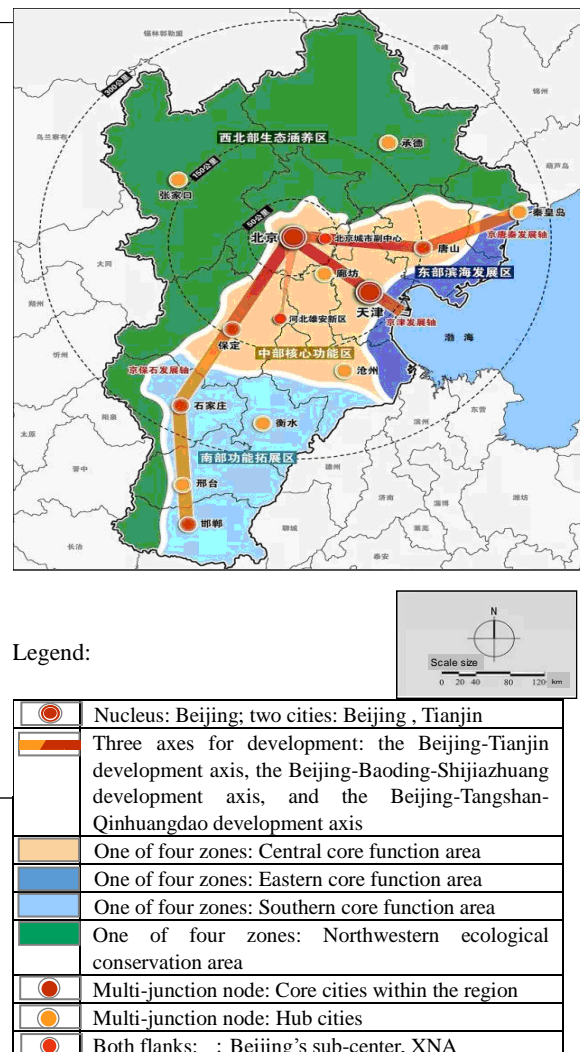
Figure 3: China's national capital region: the distribution of key cities in the BTH region



Source: Compiled from the “Hebei Administrative Districts Map”, Hebei Waixuanwang (www.hebwx.gov.cn)

Note: Shijiazhuang (Hebei's capital) is a long way from both Beijing and Tianjin (almost 300 km along the dotted lines given in the figure), meaning that it forms an acute triangle, but a quasi-equilateral triangle is created once the core cities of Tangshan and Qinhuangdao (both are located near the sea) are included.

Figure 4: The location of the XNA as given in the Beijing Urban Master Plan

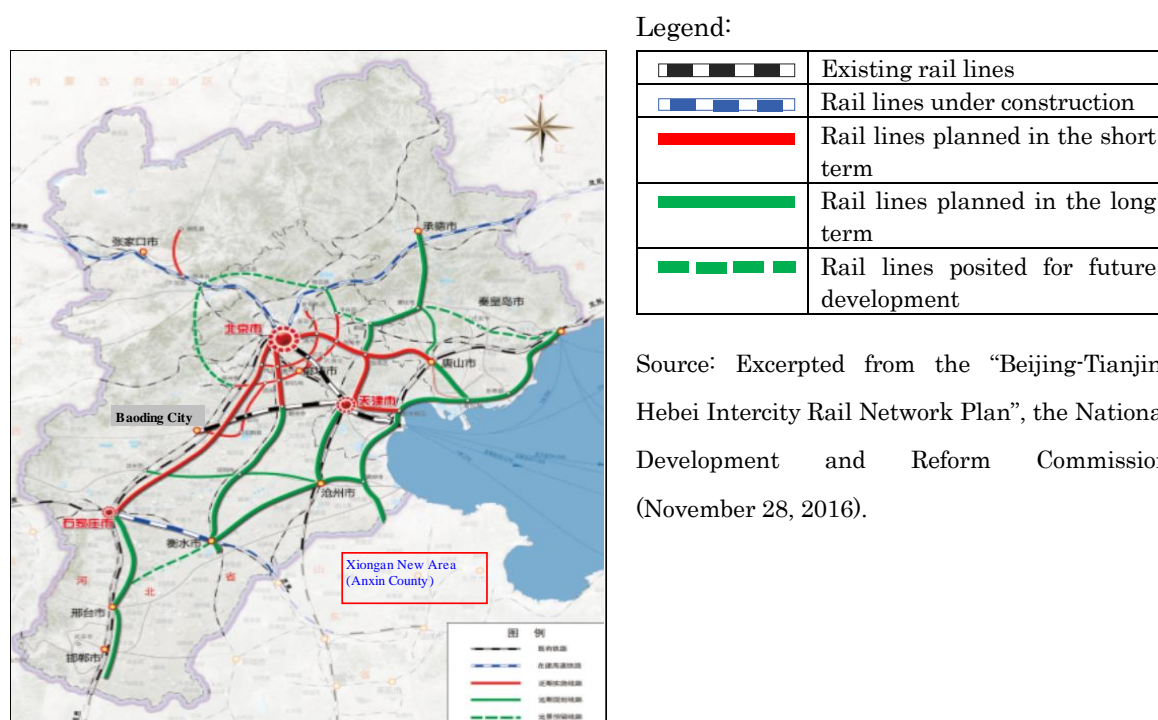


Source: Excerpted and adapted from the Beijing Urban Master Plan (2016–2035) as posted on the Beijing the People's government website (<http://zhengwu.beijing.gov.cn/gh/dt/t1494703.htm>) on September 29, 2017.

Promoting the coordinated development of the BTH region will be China's top priority for the time being, however. Work began on ground maintenance and regional planning immediately after the announcement of the decision on the XNA. The construction of transport infrastructure is a top priority and a truly ambitious undertaking. Railway construction is proceeding on the basis of the “Beijing-Tianjin-Hebei Intercity Rail Network Plan”, which was announced by the National Development and Reform Commission in 2016 (Figure 5), and Beijing is expected to accelerate this work. Work has already commenced on the construction of a high-speed railway to serve the XNA and according to press reports it will be fully operational by 2020. Steady progress is also being made on road construction and

the construction and use of underground roadways has been cited as a move that is intended to facilitate the growth of a smart, ecologically friendly city. Given that the development of this region is still to come the ease of generating a blueprint is a definite advantage, and the government is expected to release a detailed urban planning and design document to the world at large and to adopt a competitive bidding system for tenders.

Figure 5: A map of intercity rail links planned for the BTH region

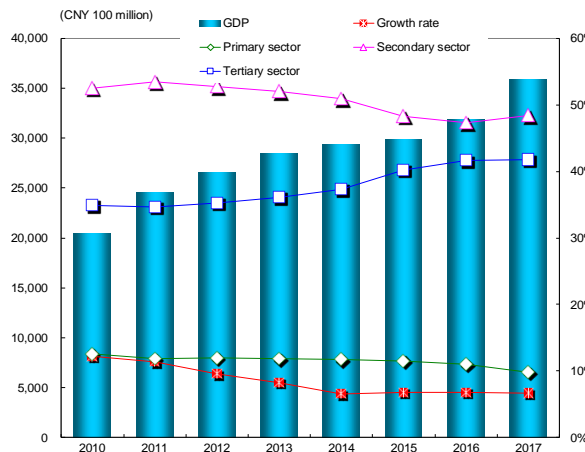


Source: Excerpted from the “Beijing-Tianjin-Hebei Intercity Rail Network Plan”, the National Development and Reform Commission (November 28, 2016).

3. The Hopes and Challenges associated with the XNA Plan

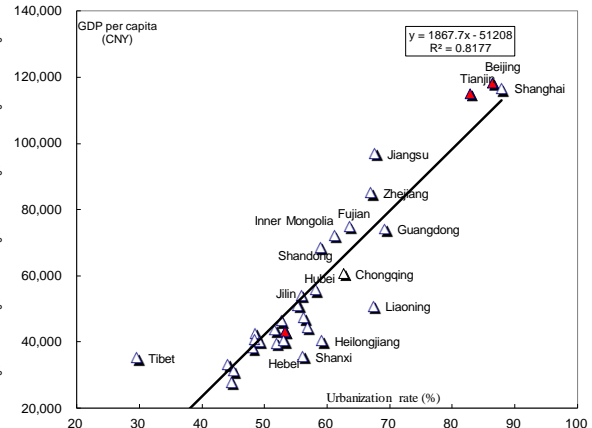
The XNA is located in a county-level district of Baoding in Hebei Province (and includes wide expanses of farmland). Whilst industrial development has yet to commence, there is limited data available on Baoding and thus this article looks at general economic trends in Hebei for insights into the characteristics of this region and its capacity for future development. As **Figure 6** illustrates, Hebei is China’s eastern industrial province and as such, the growth of its economy has been driven by the secondary sector (which accounted for 48.4% of GDP in 2016 as compared to 41.8% for the tertiary sector), but primary industry growth (11% in 2016) in fact surpasses the economic growth rate in many of the province’s administrative districts. It has the sixth largest population nationwide at 74.7 million people, but rates of urbanization and per capita GDP are lower than the national average, and it lags far behind the two cities of Beijing and Tianjin in the national capital region (**Figure 7**). The processes of industrialization and urbanization are moving forward, but the relocation of China’s iron and steel industry in recent years has resulted in significant growth in the scale of Hebei’s iron and steel industry as a percentage of total industrial production (**Figure 8**). In 2016, Hebei accounted for 26 percent of total pig iron production nationwide, 24 percent of crude steel, and 23 percent of steel, making Hebei the largest production base in China, including plate glass (which Hebei produces 17% of).

Figure 6: Economic Growth Trends (GDP) and GDP Sector Composition for Hebei Province



Source: Compiled from National Bureau of Statistics and Hebei Provincial Bureau of Statistics press releases.

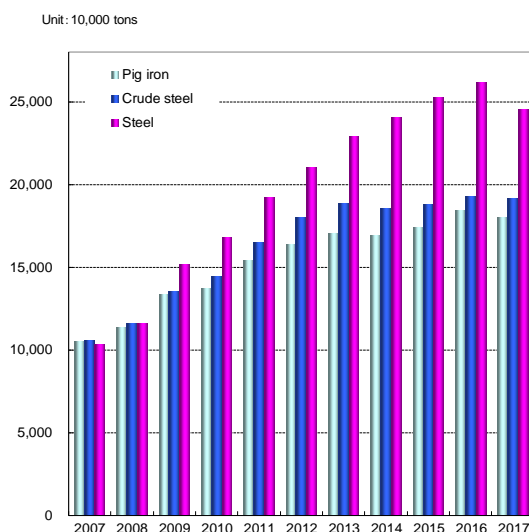
Figure 7: Regional Per Capita GDP and Urbanization Rates (2016)



Source: Compiled from the China Statistical Yearbook 2017

As demonstrated, Hebei is an important base for the production of industrial materials, but the bias in the industrial structure towards heavy industry means that the province also struggles with major environmental and resource-related issues. Given current attempts by China to transform the pattern of economic growth and upgrade its manufacturing industries, this is becoming a burden for the province. Preliminary figures for 2017 indicate that levels of steel production are decreasing across the board and that automobile production is on the increase. The growth in production of metal lathes is not sustainable, however, and output of integrated circuits (IC) has begun dropping after a period of expansion (**Figure 9**), suggesting that Hebei has a long way to go before it can shift its economy away from heavy industry.

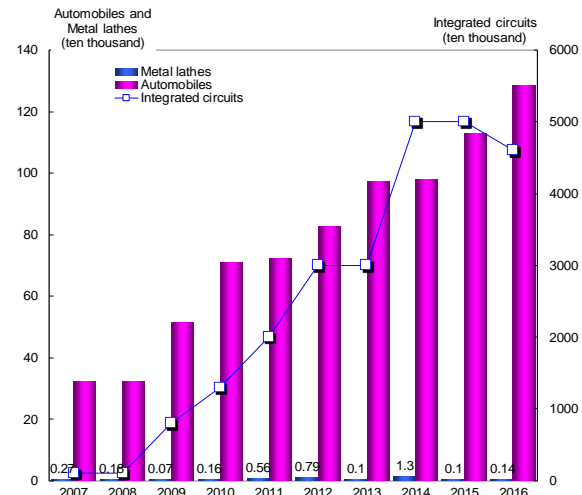
Figure 8: Trends in Steel Product Output in Hebei Province (2007-2017)



Source: Compiled from the National Data, National Bureau of Statistics

Note: Figures for 2017 are based on the preliminary reports of Hebei Powder Metallurgy Association

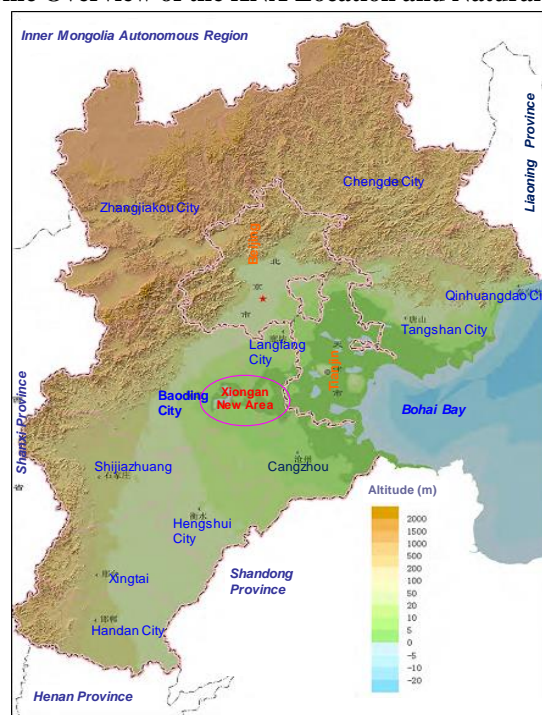
Figure 9: Trends in the Output of Electromechanical Industrial Products in Hebei Province (2007-2016)



Source: Compiled from the National Data, National Bureau of Statistics

As **Figure 10** (and **Figure 1**) illustrate, the XNA is located in a low-lying area of the North China Plain, an area that includes Lake Baiyang, the largest freshwater lake in North China boasting large expanses of wetland, making the natural environment of this area one of the most abundant in the province. Utilizing these natural blessings to transform this into a new, eco-friendly, smart, low-carbon growth area is a highly significant undertaking, but issues with pollution and destruction of the natural environment have been pointed out, and given the concerns over the pressures that regional and industrial development are expected to impose on land and water resources, policymakers will need to give careful consideration from the urban planning stages to establishing appropriate population levels and industry structures for the area as key factors in water and land resource usage so as to ensure the local ecosystem is protected². In this sense, the success of the XNA is expected to serve as a model for the development of regional development strategy not only for the national capital region but also for the Bohai Economic Rim, the Central Plain metropolitan area and China's northwestern region, and as a model for the sustainable development of the Chinese economy.

Figure 10: A Topographic Overview of the XNA Location and Natural Environment



Source: Excerpted and adapted from the “Hebei Province Urbanization Plan” (July 2013)

4. Preparations for the XNA plan, trends among companies setting up in the XNA and their future prospects

Land (housing) prices and the stock value of companies involved in the project have risen multifold since the announcement of the establishment of the XNA, but the Chinese government immediately began introducing regulation to avoid tumult in the markets and has frozen real estate transactions in the three counties. There has been a degree of corporate relocation to the area and progress is being made on the construction of transport

² A Chinese Academy of Social Sciences research paper entitled “Carrying Capacity of Resources and the Environment of Xiongan New Area: Evaluation, Regulation, and Promotion”, demonstrates the carrying capacity of the area's population, land and water resources. Currently, the area has abundant land and water resources, relatively speaking (including the Danjiangkou course, which is the Central Route in the South-North Water Transfer Project; see the attachment to Figure 2), but the report argues that the population of the XNA will need to be kept below five million and recommends a pattern of industrial development that will facilitate the conservation of the area's land and water resources.

infrastructure, but the detailed construction plan for the XNA is still under preparation.

According to Xinhua News Agency reports, the Standing Committee of the Political Bureau of the Communist Party of China (CPC) Central Committee held a meeting on February 22 this year, to check progress on the urban planning document for the XNA, a new area of national significance. The statement released after the meeting pointed to the need for a timely start to the construction of basic infrastructure and other major projects and called for the drafting of measures to support the XNA in accelerating reform and economic opening. Presided over by Chinese President Xi Jinping, CPC leaders agreed that building the XNA is a “historic project” that will play a significant role in helping to decentralize non-capital functions away from Beijing, optimizing the spatial layout of the BTH (national capital) region, and exploring a new model of rational development for densely populated areas, and emphasized the goal of creating an environmentally friendly, low-carbon city that will realize the smartification of urban functions and serve as a breeding ground for innovation. It was also pointed out that promoting the construction of the XNA constitutes another major decision on and provision for the coordinated development of the BTH region, that it is a historic project, and that it is of realistic and profoundly historical significance in terms of the transfer of non-capital functions from Beijing, the search for an optimal model of development for densely populated areas, reviewing and optimizing the spatial layout of the BTH region, promoting high quality development and cultivating a new engine for the construction of a modern economic system.

It was also pointed out that the planning and construction of the XNA falls under the guidance of “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era”, a new ideology that has been in place since the 19th National Congress of the CPC, and as such should feature a global perspective and an international standard with Chinese characteristics, and that its high-level position should be strictly maintained. The meeting also stressed the importance of creating “Xiongan quality” and of ensuring that the XNA serves as a national template for promoting high quality development. Since the primary mission of the XNA plan is to move non-capital functions out of Beijing, the urban layout must be rational so as to accommodate the natural environment and respect the law, and should be linked to the region’s culture, natural landscape and the demands of the times. Efforts should be made to create a city that is Chinese in character, encompasses the scenery of Lake Baiyang (in Anxin county) and has the spirit of innovation, and simultaneously to promote the planning and development of a digital city that is smart, adheres to ecological priorities and the principles of green development, and the construction of an environmentally friendly, low-carbon new area³.

Less than a year on from the decision on the establishment of the XNA, there are reports that more than eighty companies have either invested in or set up operations in the new area (there were 45 registered companies as of the end of January). It is not only state-owned enterprises (from the transport, telecommunications, finance, construction and other key industries) that are relocating to the XNA, BAT (Baidu, Alibaba and Tencent), China’s big three internet and e-commerce companies, are also actively investing in the new area, and more recently a number of private-sector property developers and tourist service providers have begun moving into the area. As **Table 4** demonstrates, it is companies and corporate groups involved in areas associated with innovation, artificial intelligence and the Internet of Things (IoT) that appear to be most proactively interested

³ Xinhua News Agency, February 22, 2018; China Communications, February 24, 2018, etc.

in relocating to the XNA, which makes sense given the concept behind its establishment and the directions planned for its development. It seems highly likely that non-Chinese companies will wait for the release of an official master plan for the development XNA before making forays into the area, but the signing of a memorandum of understanding by the British and Chinese governments in early February regarding the joint development of a financial and technology district in the XNA (the agreement was signed by China Xiongan Construction & Investment Group, Bank of China and the British property company, Canary Wharf Group) is expected to spur foreign companies into action in areas including urban development and environmental maintenance.

The XNA has a geographical advantage in that this new conurbation is the closest special economic zone to Beijing and the central government. Moreover, given that it has been positioned as an ambitious regional development plan that is being described as a “strategy crucial for a millennium to come”, ensuring its success is both a necessity and a possibility. Aside from the new infrastructure that will be put into place for the XNA and the economic effects resulting from the integrated development of the national capital region, the development of the XNA is expected to serve as a trigger for new growth in Northern China, the Yellow River basin and the Central Plains⁴, and the birth of a large new city in south-central Hebei (i.e. the XNA) within the next twenty to thirty years is expected to link the urban functions of Beijing and Tianjin and to serve as a new engine for economic growth in Shijiazhuang (Hebei’s capital), Henan province, Shanxi province and other provinces in China’s central and northern regions, and as such, as Shenzhen and Pudong are currently doing, to generate a surge of energy and additional synergies for urban and regional development initiatives that will help to alleviate the intra-regional inequalities between east and west and north and south China, and enable China to strike a balance in development nationwide. The announcement of a detailed development plan for the construction of the XNA is eagerly anticipated, but as a major regional development project with the imprimatur of the central government there seems little doubt that the XNA Plan will garner significant attention.

Table 4: Trends in projects being undertaken by companies and/or consortiums in the XNA

	Company / Region	Date	Project	Amounts invested and project contents
1	Alibaba	Nov. 2017	Alibaba has signed a strategic partnership agreement with Xiongan New Area Management Committee regarding the construction of a smart city in the XNA	The project will draw on the cloud computing, IoT, artificial intelligence and block chain technologies owned by Alibaba to facilitate urban planning and management in the XNA.
2	Iflytek	Feb. 2018	Development of a biometric authentication project	The project will involve the creation of a personal authentication system for the XNA that will use face recognition and voiceprint authentication (according to Iflytek president, Liu)
3	China and Britain	Feb. 2018	The construction of a financial and technology district	The district is to be jointly built by China Xiongan Construction & Investment Group, state-owned Bank

⁴ In February this year, the National Development and Reform Commission and the Ministry of Housing and Urban-Rural Development jointly issued the “Guanzhong Plain Urban Cluster Development Plan” (which sets the year 2035 as its endpoint) with a view to developing the cities that lie in China’s Yellow River basin. The plan aims to promote the development of under-developed areas of Northern China through the development of an urban cluster, the construction of a transport network, expanded links with neighboring regions and active participation in the Belt and Road Initiative.

	Company / Region	Date	Project	Amounts invested and project contents
			district in the XNA by China and the United Kingdom	of China, and the British property company Canary Wharf Group. The three companies signed a strategic partnership agreement on January 31 to coincide with British Prime Minister Theresa May's first official visit to China.
4	China Telecom	Aug. 2017	Work has commenced on the construction of a 5G network for Xiongan	China Telecom aims to begin testing commercial 5G services in 2019 and to have the network fully operational by the following year.
5	Greenland Holdings	Jan. 2018	Establishment of a subsidiary in the XNA	The company has committed 2 billion yuan (approx. 34.6 billion yen) in registered capital. It has established "Xiongan Greenland Double Innovation Center" to support corporate innovation in science and technology, whilst "Xiongan Greenland Platinum Apartment" will build serviced apartments.
6	Baidu	Dec. 2017	Baidu has signed a strategic partnership agreement with XNA authorities regarding an artificial intelligence project	The cooperative agreement includes promoting construction of "Xiongan AI City" as an urban development plan utilizing artificial intelligence in the XNA, the construction of cloud computing infrastructure and a state-level artificial intelligence laboratory.
7	China Xiongan Construction & Investment Group (owned by the provincial government of Hebei)	Nov. 2017	Established "Xiongan Zhiye" as the first real estate company in the XNA	The company has committed 1 billion yuan (approx. 17.2 billion yen) in capital and is wholly funded by China Xiongan Construction Group. It is involved in property development and management and additionally provides property management services and parking services.
8	State Grid Corporation of China	Apr. 2017	Announced its decision to establish a new company in the XNA	The company will guarantee the power supply in the areas covered and will support development and construction work.
9	Beijing Creative Distribution Automation	May 2017	Established a power supply subsidiary in the XNA	The new company has been tentatively named: XionganKerui Peidian Nengyuanganli and is wholly owned by Beijing Creative Distribution Automation, which has committed 100 million yuan (approx. 1.632 billion yen) in capital. The company will supply power, develop power-related technology and install electrical equipment, etc.
10	Peking University	May 2018	Established a medical center in the XNA	This medical center will provide undergraduate, research, training and healthcare services as an integrated package to the XNA; discussions on the establishment of a public-private partnership center have been completed with the human resources department of the Guanghua School of Management of Peking University, the School of Economics of Peking University, and relevant government ministries.
11	Shenzhen DAS Intellitech	Jul. 2017	Established a subsidiary in the XNA	The subsidiary, which has been named Xiongan Dashi Lüse Zhihui Keji, has committed 500 million yuan (approx. 8.3 billion yen) in capital and is wholly funded by DAS Intellitech. It is primarily involved in the research, development and commercialization of IoT systems, the research, development and commercialization of smart healthcare data systems, and the development and commercialization of big data for medical use.
12	Zhongguancun National Innovation	Jul 2017	Established Zhongguancun Science Park in the XNA	The establishment of Zhongguancun Science Park in the XNA was announced by Cai Qi, Communist Party Secretary of Beijing, and a member of the Politburo of

	Company / Region	Date	Project	Amounts invested and project contents
	Model Park			the CPC, following the establishment of Zhongguancun Innovation Centers in Binhai New Area(Tianjin) and Baoding in Hebei province.
13	Hesteel and CSCEC Steel	Jun. 2017	Established a joint venture in the XNA	Steel giant Hesteel, CSCEC Steel, which is involved in steel construction, and Hebei Construction Group, which is partially funded by government investment, have established Hesteel CSCEC as a joint venture corporation. The investment structure is as follows: Hesteel 50%, CSCEC 40%, and Hebei Construction Group 10%.
14	Huaqiang Group	May 2017	Established an R&D center in the XNA	Guangwei Liang, president of the Shenzhen Huaqiang Group, has announced that it will invest upwards of 60 billion yuan (approx. 980 billion yen) in Hebei in the next three years. The group has some six to ten projects in mind but will start by establishing a new energy business headquarters and an R&D center, with a view to investing its resources in renewable energy production.
15	Tencent	Sep. 2017	Established a holding company affiliate in the XNA	The company has been named Tencent Computer Systems, Limited, and has committed 20 million yuan in capital.
16	Hebei Tourism Investment Group	Jan. 2018	Established the first tourist business-related company in the XNA (in Rongcheng county)	The company has committed 20 million yuan in capital and is primarily involved in providing management services for tourist destinations and hotels, restaurant services, tourist goods, exhibition services, event sponsorship, housekeeping, and taxi services.

Source: Compiled from various news sources. The dates given are the dates on which specific companies were established or the dates of the relevant press releases. The information listed deals primarily with those companies that have advanced into the XNA as of January 2018 (the date of publication), but is by no means all inclusive.

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