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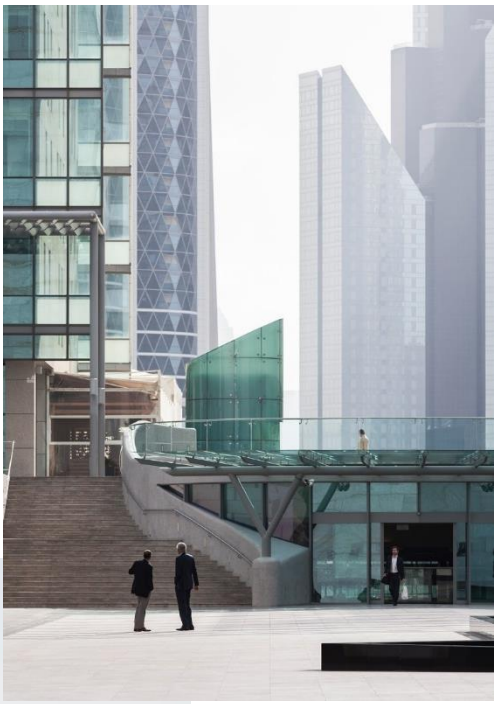
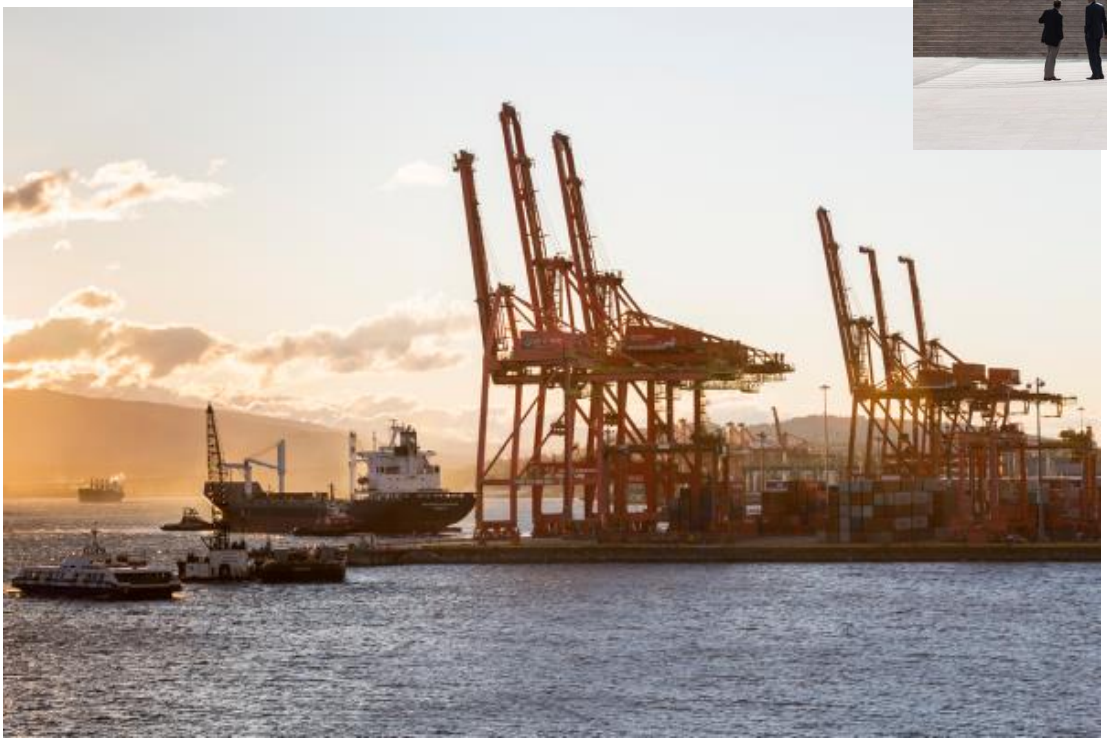
Prospects for future economic cooperation between China and Belt & Road countries





Top ten Belt & Road (B&R) economies account for 64% of overall GDP of B&R countries

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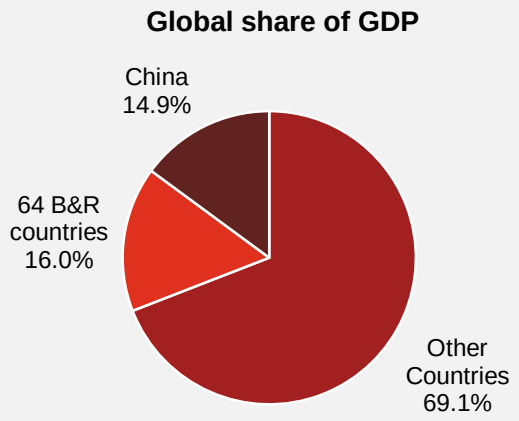
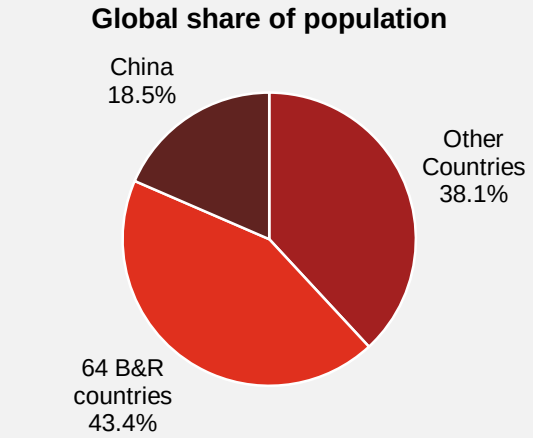
In September 2013, Chinese President Xi Jinping proposed building a "Silk Road Economic Belt" and the "21st Century Maritime Silk Road". Thereafter, it gained the attention of the international community, especially from countries along the “Belt and Road” (B&R) and the business community around the world, especially in China. Economic cooperation between the enterprises is at the core of promoting the B&R economies, as one of the primary ways to improve the well-being of people along the route. This past weekend at the B&R summit, this has received even greater impetus between heads of states and governments.

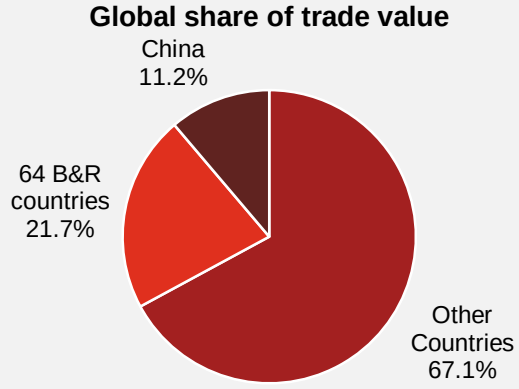
Overview of B&R economies

China's GDP is nearly equivalent to the overall GDP of 64 B&R countries

According to China State Information Centre, it is estimated that at the end of 2016, the 64 B&R countries recorded a combined GDP of about USD 12 trillion, 16% of global GDP, while China's GDP was USD 11 trillion. That is to say, China's economic strength nearly equalled the sum of these 64 countries. The total population of these countries is 3.21 billion, 43.4% of the world total, and about 2.3 times China's 1.38 billion. China's per capita GDP is roughly two times the average of B&R countries, which means that the economic development of many B&R countries lags behind China.

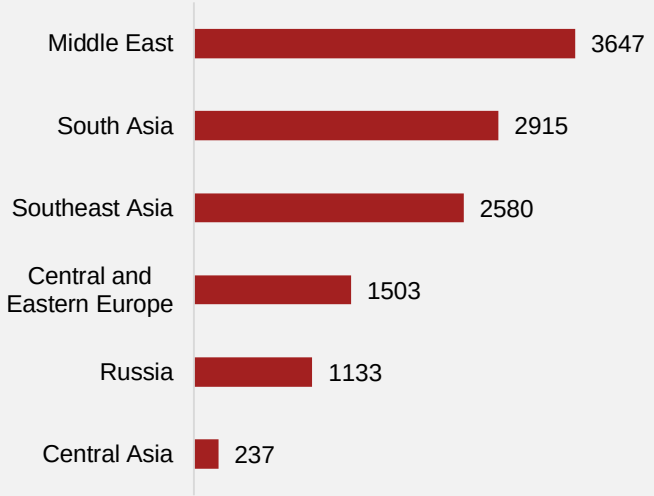






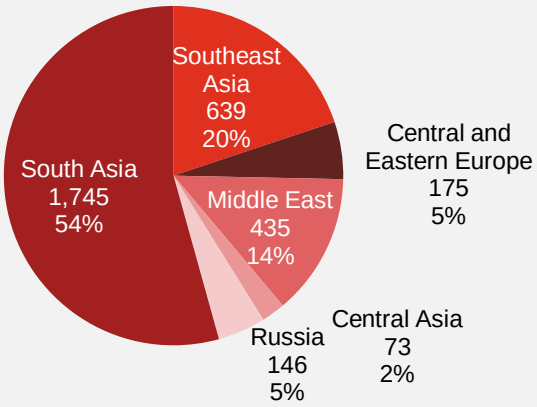
(Source: China State Information Centre)

Total GDP in major regions of "Belt and Road" (USD billion)



Source: Data for 2016 from China State Information Centre, PwC analysis

Population distribution in the six B&R regions (million people)

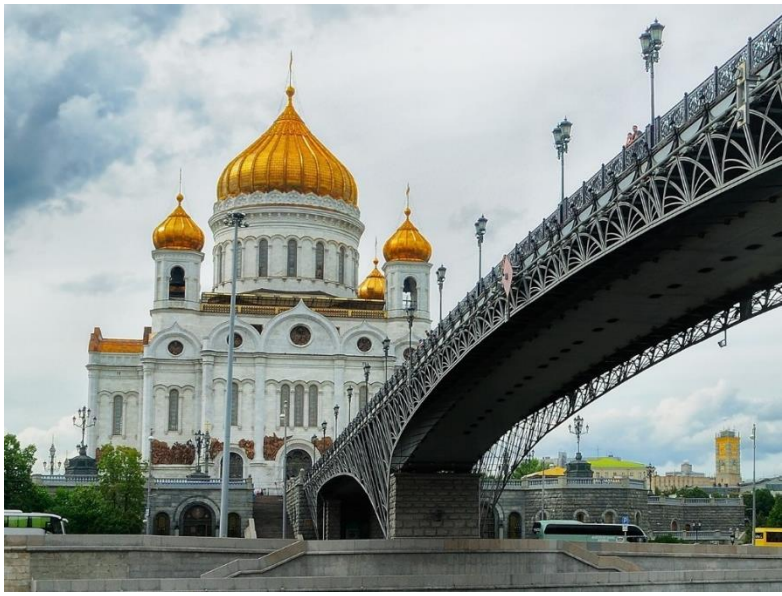


Source: Data for 2016 from China State Information Centre, PwC analysis

Top ten B&R economies account for 64% of overall GDP of B&R countries

There are 64 B&R countries, and the sheer scale means that many enterprises are at a loss in terms of where to begin. The existing data is basically classified by geographical area into several large regions, but this is of little practical use when making business decisions. In order to facilitate enterprises' business decisions, we classified the countries according to size of economy. In geographical classification, we also considered the cultural factors:

- Southeast Asia (i.e. 11 ASEAN countries)
- South Asia (eight countries)
- Central Asia (Mongolia is classified as a Central Asian country, a total of six countries)
- Middle East (also often referred to as West Asia and North Africa, a total of 19 countries)
- Central and Eastern Europe (traditional Central and Eastern Europe 16+ Ukraine+ Belarus + Moldova, a total of 19 countries)
- Russia (across Eurasia, listed separately)



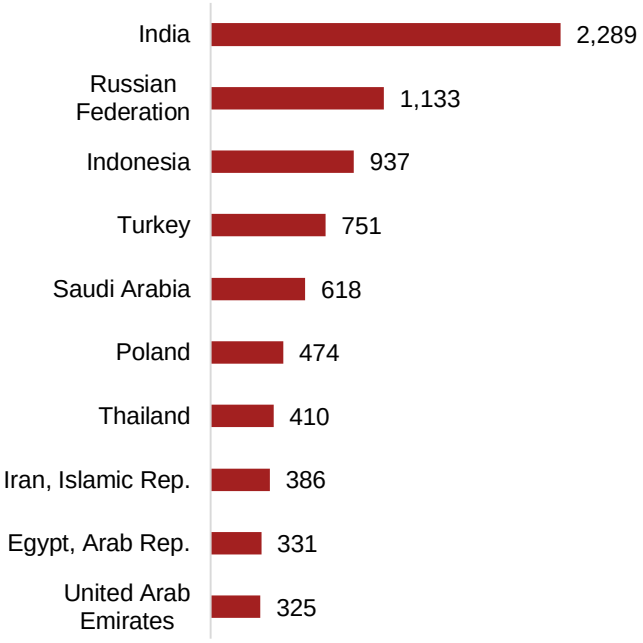
By GDP, Middle East is at the top followed by South Asia, while Southeast Asia, which is most closely associated with China and with whom Chinese companies are generally familiar, accounts for only about 22% of total GDP of the B&R countries. Although the population of the Middle East is only 14% of that of B&R countries, its GDP accounts for 30% of B&R countries. Its per capita GDP of over USD 14,000 is the highest amongst B&R countries, and is also much higher than China's per capita GDP of USD 8,000.

Throughout the B&R countries, South Asia and Central Asia's per capita GDP are all less than half of China's, with Russia close to China, while Southeast Asia and Central and Eastern Europe are slightly higher than that of China. The per capita GDP can probably be used to understand the level of local economic development.

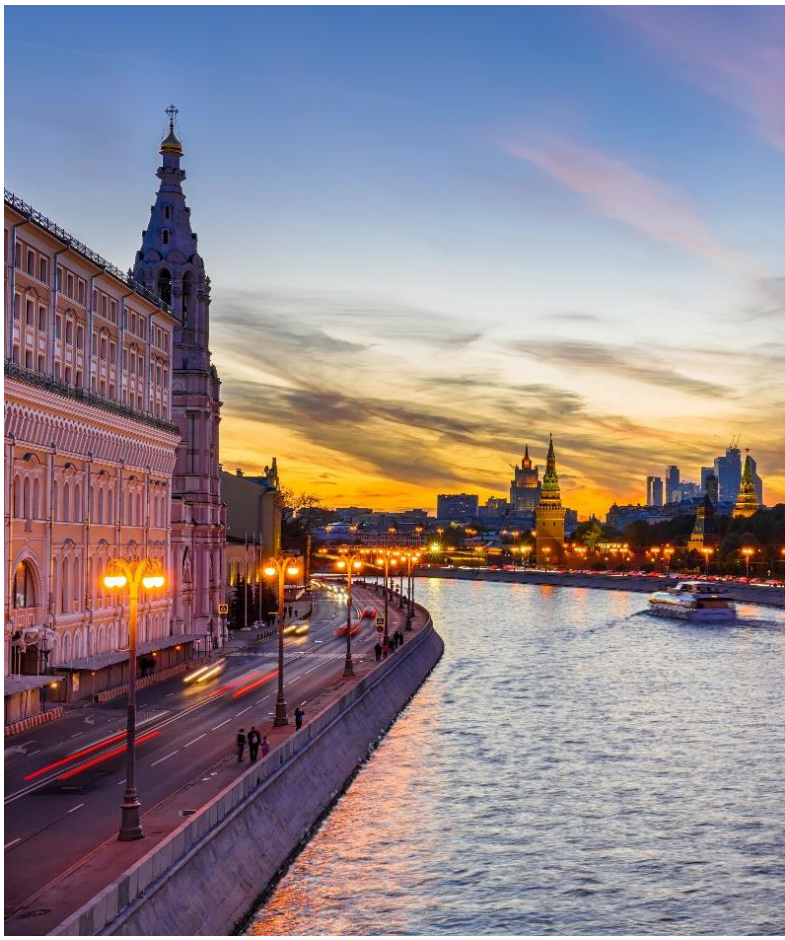
Coincidentally, the top ten largest B&R economies are basically located in all of the above areas except Central Asia. Among these countries, half of them are in the Middle East. Among the top 20 economies, there are seven Middle Eastern countries, with five Southeast Asian countries accounting for one quarter of B&R economies. Top ten and 20 B&R economies accounted for 64% and 83% of the overall GDP of the B&R countries, respectively.

Therefore, we believe that for most of the Chinese companies, the top ten economies are the key in developing the B&R market. Chinese enterprises with a higher degree of internationalisation should target the top 20 economies, because the economies of the 44 remaining countries account for only 17% of B&R countries, with only four countries' GDP exceeding USD 100 billion, namely Romania, Qatar, Hungary and Kuwait. That is to say, if a country's GDP is less than USD 100 billion, it is unlikely to have projects valued in the billions of dollars which will not appeal to large Chinese enterprises.

GDP of top ten economies of "Belt and Road" (USD billion)



Source: Data for 2016 from China State Information Centre, PwC analysis



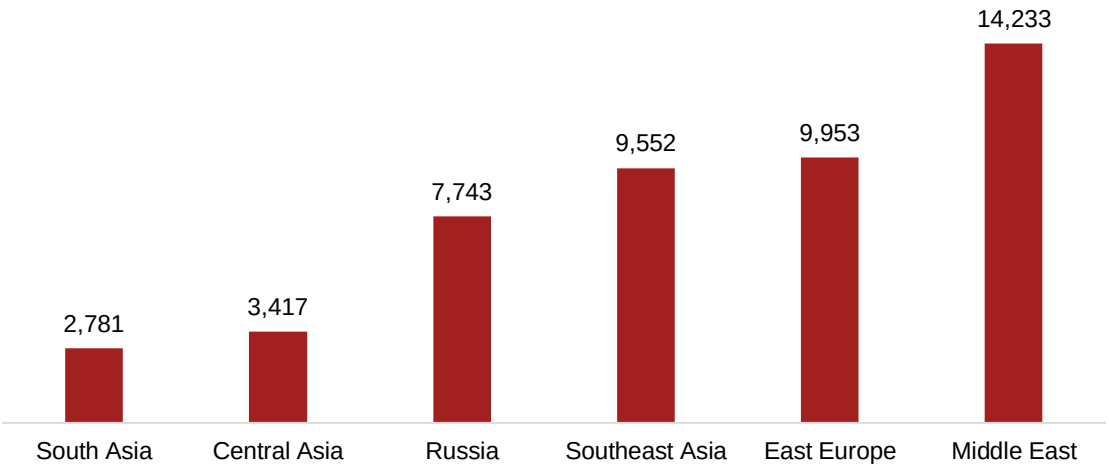
Middle East and South Asia's GDP accounts for half of the GDP of all B&R countries

As mentioned, 19 Middle Eastern countries make up the largest economic values of B&R countries. In 2016, its total GDP was about USD 3.6 trillion, which is one third of the GDP of all B&R countries. The eight South Asian countries are in second place with their GDP at nearly USD 3 trillion, accounting for one quarter of the GDP of all B&R countries. Middle Eastern and South Asian economies account for more than 55% of the GDP of all B&R countries.

Because of their geographical location, Chinese companies are more familiar with Southeast Asia, the third-largest region along B&R. The China-ASEAN free trade agreement is another important reason for the close relations between China's economy and Southeast Asia. Although Middle East and South Asia account for over half of the total economic size of the B&R, their trade and investment with China are relatively small, so for enterprises, there are broader prospects and greater room for investment and trade.

South Asia has the largest population, lowest per capita GDP and the largest single market

GDP per capita of the six regions of B&R (USD)



Source: Data for 2016 from China State Information Centre, PwC analysis

Population distribution of the 3.21 billion people of the 64 B&R countries is extremely uneven. There are eight countries in South Asia, of which, India, Pakistan and Bangladesh are in the top five of the top ten most populous B&R countries. Large population also implies a larger single market, with three countries' population of 1.66 billion, accounting for more than half of the population of B&R countries. When combined with a few other South Asian countries, the regional population is 1.74 billion, accounting for 54% of the population of all B&R countries.

In the six geographic regions of B&R, according to our criteria, although South Asia has a large population, its economic output accounts for only 24% of B&R countries, which is low compared with other regions. But the three huge single markets have an importance for Chinese enterprises that should not be overlooked. From the perspective of medium- and long-term economic development, a large population means a big potential market.

Prospects for future economic cooperation between China and B&R countries

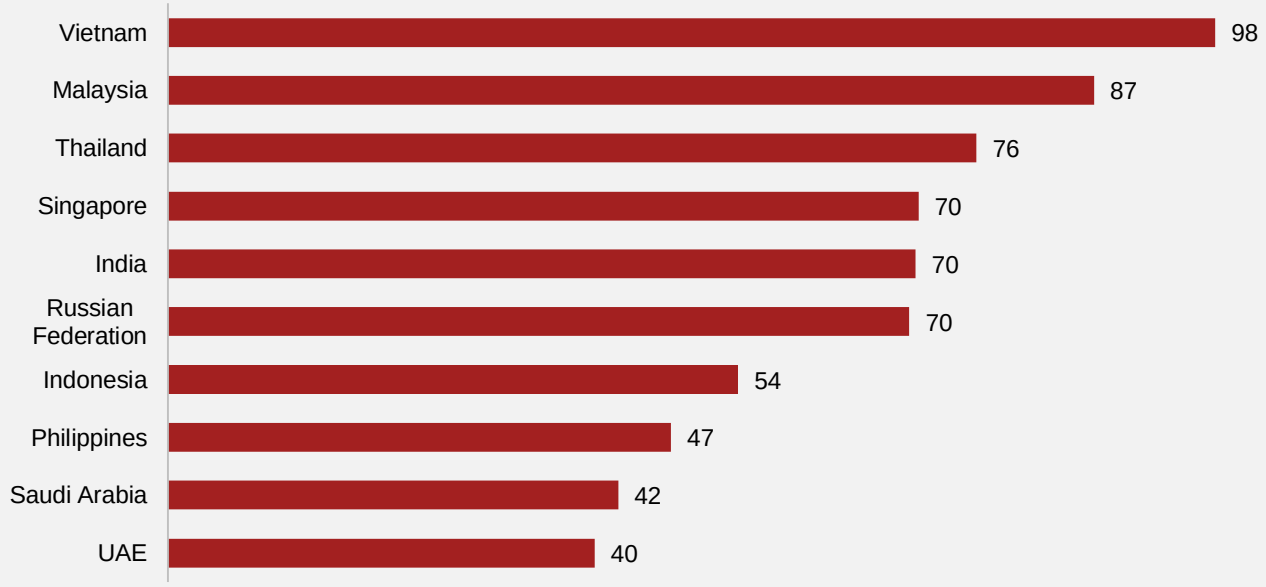
The Belt and Road Forum for International Cooperation (BRF) was held in Beijing from 14 to 15 May 2017. According to China's Ministry of Foreign Affairs, 29 heads of states and governments attended this high-level conference since the grand vision was put forward by President Xi Jinping in 2013. Economic cooperation is expected to be the top priority of 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 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 ten 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 with China along the B&R routes (USD billion)



Data from: Wind 2016 data, PwC analysis

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.

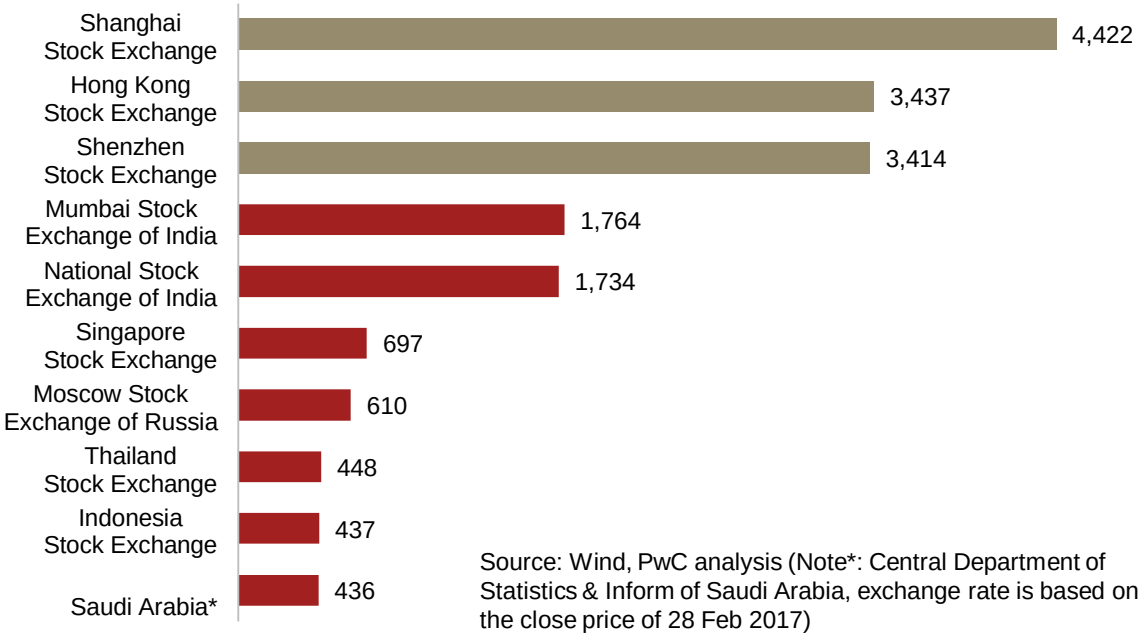
In addition, it may be of greater significance to support enterprises of B&R countries to be listed on China's stock markets.

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 Renminbi (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 the 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 and China (USD billion)



Source: Wind, PwC analysis (Note*: Central Department of Statistics & Inform of Saudi Arabia, exchange rate is based on the close price of 28 Feb 2017)

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.

Promoting RMB internationalisation

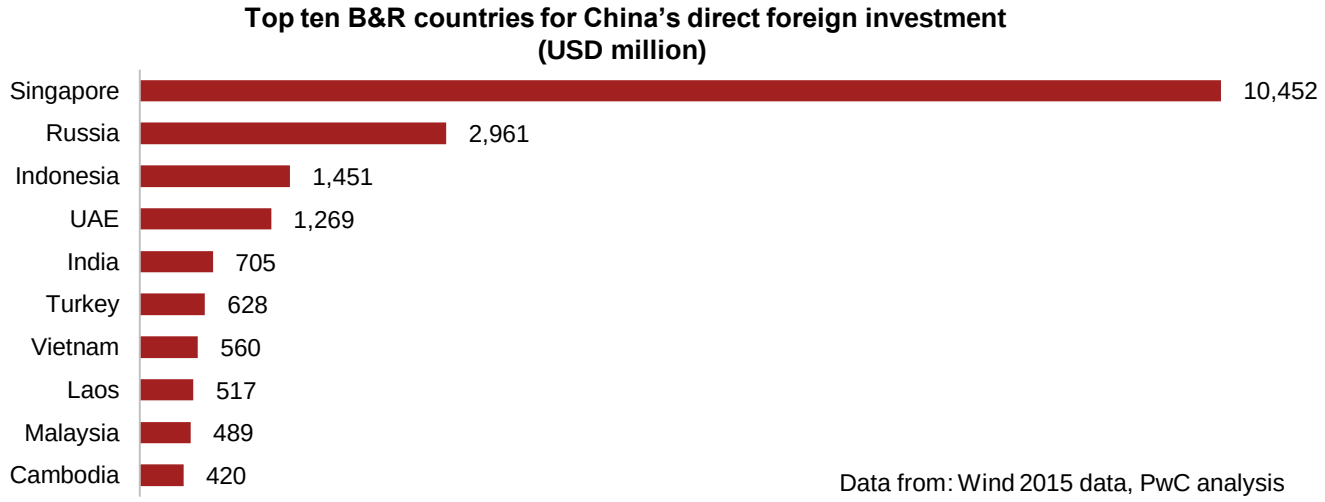
Just like RMB's internationalisation process, B&R development will be a long and slow process. But these two are the key drivers of China's future economic development and deeper integration with the world. If China's economic globalisation is an arrow shot out of a bow, then B&R is the bull's eye while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

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.

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, an increase of 246% and 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 investments in B&R countries, though recently increased, remained at a low level with the exception of Singapore.

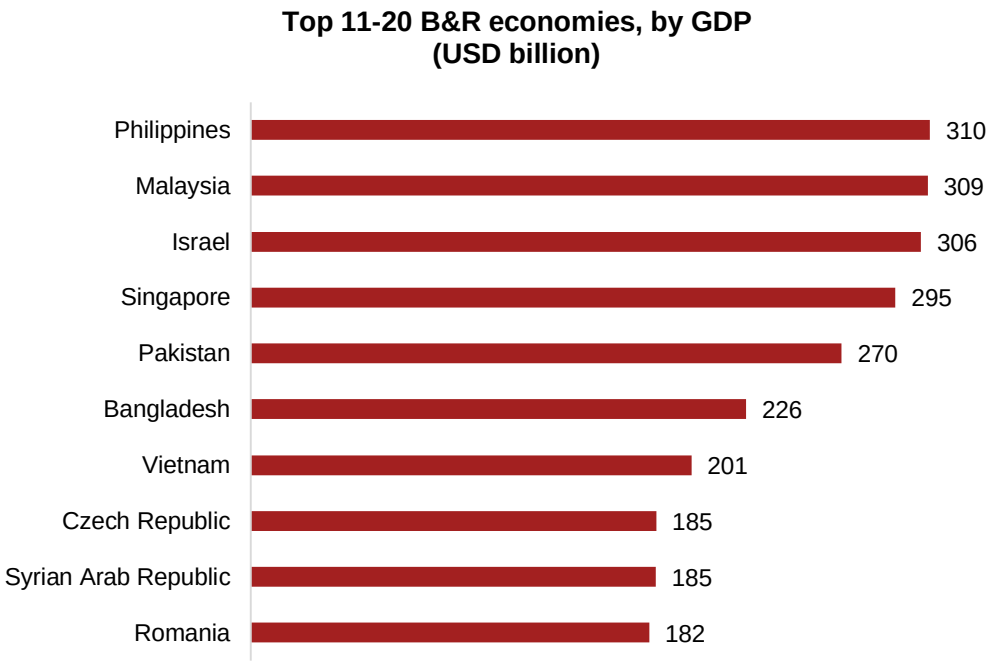


When Chinese enterprises invest abroad, economic returns and risk management are often top priorities. Since the majority of Chinese enterprises have limited international exposure and restricted knowledge of overseas markets, developed countries often get preferred over most B&R economies. Therefore, 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 insisted that the B&R initiative would 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 its long-term development.

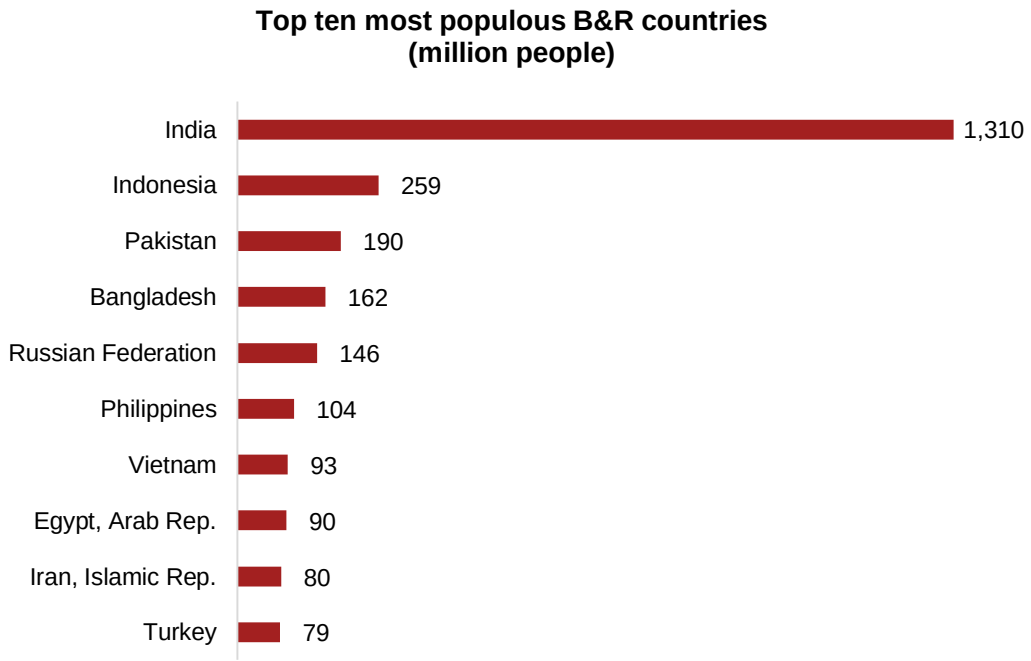
Appendix: Miscellaneous economic data of B&R countries

Top 11-20 B&R economies



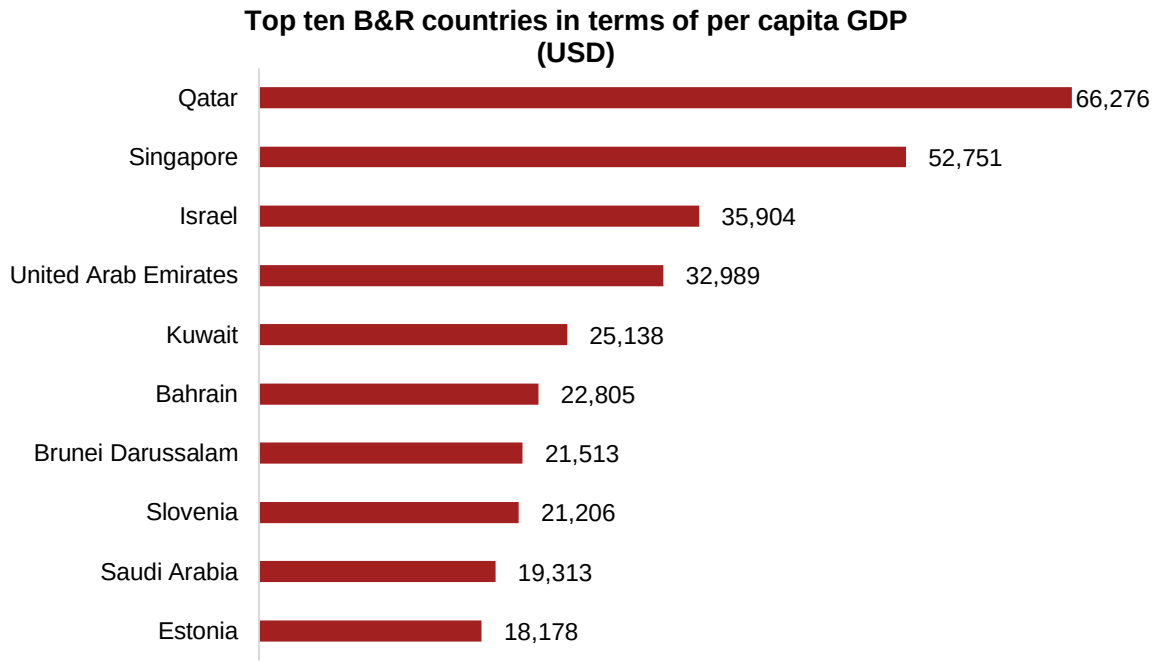
Source: Data for 2016 from China State Information Centre, PwC analysis

Top ten most populous B&R countries



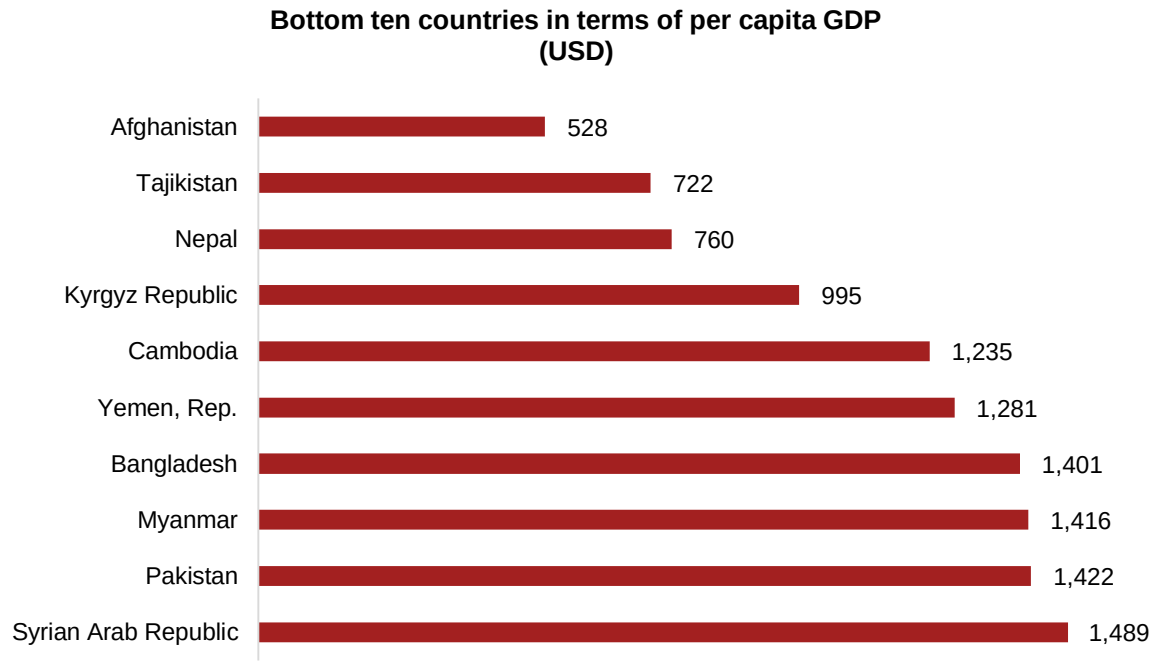
Source: Data for 2016 from China State Information Centre, PwC analysis

Top ten B&R countries in terms of per capita GDP

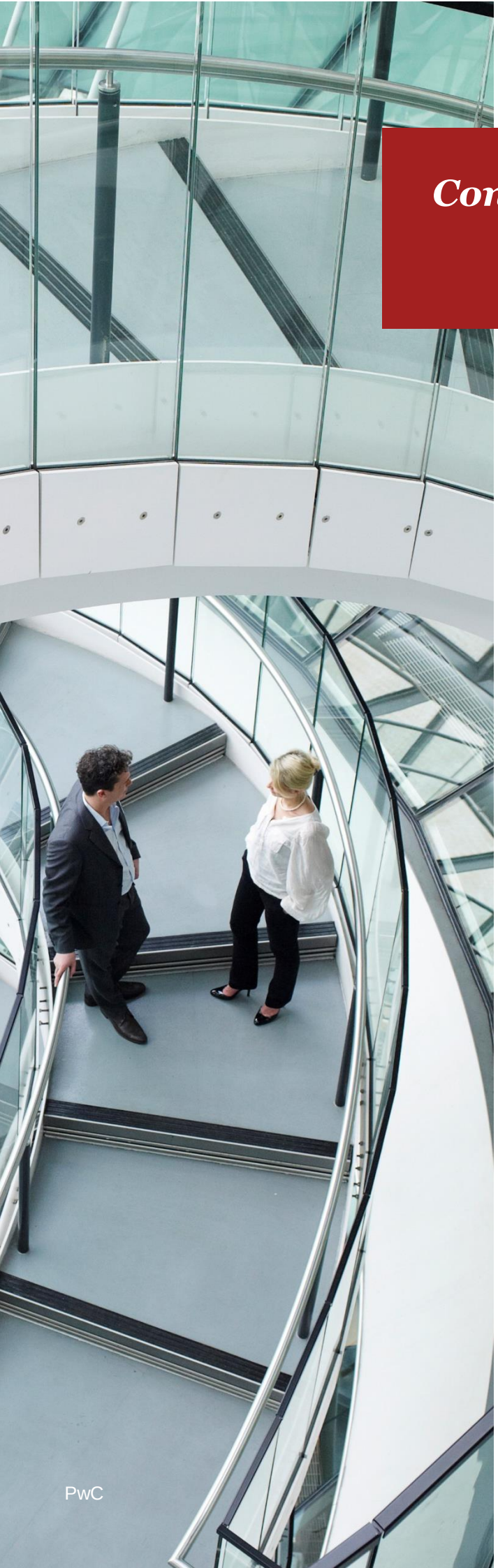


Source: Data for 2016 from China State Information Centre, PwC analysis

Bottom ten countries in terms of per capita GDP



Source: Data for 2016 from China State Information Centre, IHS forecast, PwC analysis



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