

Macro Note

The Belt & Road Series: The Yunnan-ASEAN Chapter

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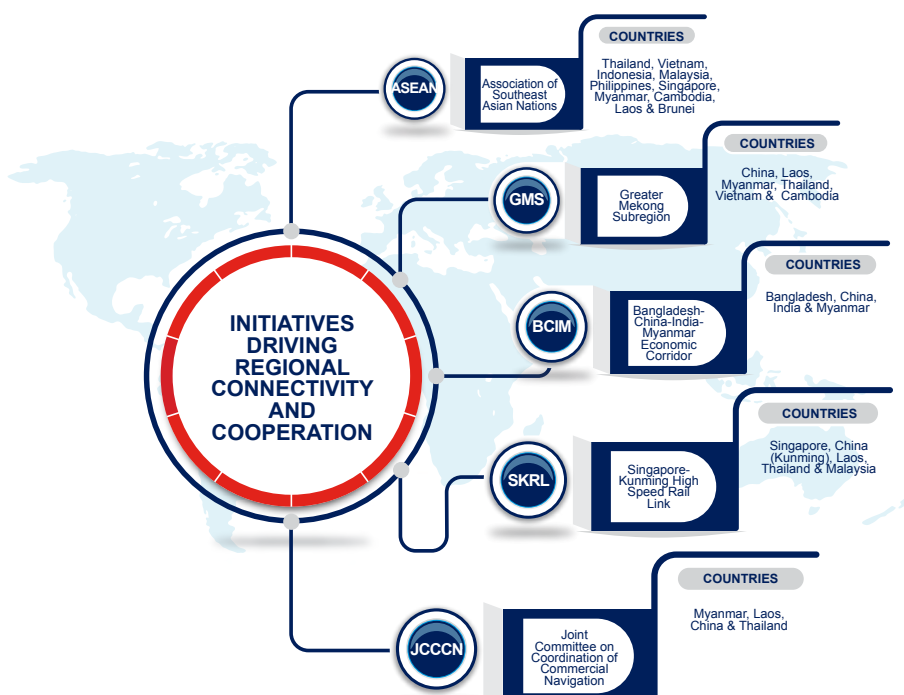
The Belt & Road (B&R) Initiative, first mooted by China's President Xi Jinping in September 2013, has created enormous business potential and possibilities. Through linking countries along the "Silk Road Economic Belt" and "21st-Century Maritime Silk Road", the B&R Initiative encompasses connectivity and cooperation among the participating countries.

In the southwestern region of China, Yunnan's strategic location where it shares borders with emerging ASEAN economies - Myanmar, Laos and Vietnam, enables the province to act as a land-based connector between China and the members of ASEAN - one of the fastest growing and populous economic regions in the world.

OVERVIEW OF YUNNAN PROVINCE



YUNNAN CROSS BORDER CONNECTIVITY



Source: UOB Global Economics & Markets Research
Figures as of 2016

The Belt & Road (B&R) Initiative

- The Belt & Road (B&R) Initiative, first mooted by China's President Xi Jinping in September 2013, has created enormous business potential and possibilities as it involves more than 65 countries, 40% of global GDP, 4.4 bn of population, and 34% of global trade, along the B&R.
- With the successful conclusion of the Chinese Communist Party's 19th National Congress in October 2017, the B&R Initiative is expected to see continued strong support from the Chinese government in President Xi's second five-year term, as the country ushers in a new era.
- Through linking countries along the "Silk Road Economic Belt" and "21st-Century Maritime Silk Road", the B&R Initiative encompasses connectivity and cooperation among the participating countries via policy coordination, facilities connectivity (such as infrastructure investment), trade and investment, financial integration, and cultural exchanges among peoples.
- Within China, the B&R Initiative stretches from coastal provinces in the east to western provinces that connect to countries and economies in central Asia and southeastern and south Asia.

Core Chinese areas involved



Source: The Straits Times

Sharing 4,060km of border with Myanmar, Laos and Vietnam

Close proximity to India, Bangladesh, Thailand and Cambodia

Yunnan Province: Growth And Investment Opportunities

- In the southwestern region of China, Yunnan province shares borders with emerging ASEAN economies of Myanmar, Laos and Vietnam that stretch 4,060 km. This natural advantage enables the province to act as a land-based connector between China and the 10-member Association of Southeast Asian Nations (ASEAN), which is one of the fastest growing and populous economic regions in the world.
- In addition, Yunnan is also within close proximity to India, Bangladesh, Thailand and Cambodia. Together with Chinese regions including Guangxi and Chongqing, Yunnan is naturally positioned as an important passage to both Southeast Asia and South Asia by land, having strategic roles to play in enhancing border stability and cooperation with the neighbouring countries. Needless to mention, Yunnan is one of the core areas within China's B&R Initiative.
- Yunnan province achieved GDP of US\$223 bn (RMB1.48tn) in 2016, equivalent to 2%



of China GDP. With a population of 47.7 mn, the per capita GDP of the province is around US\$4,700 in 2016 vs. average national income of around US\$8,100.

Establishment of the Yunnan Dianzhong New Area

- In 2015, China's State Council approved the establishment of the Yunnan Dianzhong New Area in Kunming, covering 482 square kilometers and is China's 15th state-level New Area since the first one was launched in Shanghai in 1992. The Yunnan Dianzhong New Area focuses on mid- to high-end industries such as automobile and equipment manufacturing, electronic information and biology.

Above national growth rate

- In line with the central government's aim of reducing income inequality in the country, there had been persistent and strong efforts to expand economic development towards inland and western China. Since 2011, the central government has adopted a national strategy to develop Yunnan province as a key bridgehead for the opening-up of southwest China.

Rebound in total trade

- Yunnan province had been able to generate one of the highest economic growth rates amongst the Chinese provinces/cities. Yunnan's real GDP growth had averaged 10.9% per annum between 2010 and 2016, well above the national average of 8.1% in the same period. Developing regions such as Yunnan are increasingly attractive to investors due to their growth potential.

- Yunnan recorded US\$21.3 bn total trade in 2016, with export at US\$12.7 bn and import at US\$8.5 bn, a near 60% increase from US\$13.4bn in 2010. Following two preceding years of contraction, Yunnan's total trade have rebounded strongly in the first nine months of 2017, at 10.2% y/y, in line with the national trade growth of 10.4%. Key merchandise exports for Yunnan are agricultural products and fertilisers as well as labour-intensive manufactured goods while imports are chiefly energy-related and commodities.

Tourism accounts for nearly 25% share

- Trade facilitation efforts have contributed to expanding trade links with ASEAN which is Yunnan province's largest trading partner. Merchandise trade between ASEAN and Yunnan totaled US\$6.0bn (RMB39.84bn) in the first half of 2017, accounting for 63.1% of the province's trade.

Strong investment growth

- Services sector will become increasingly important with the rise of the tourism industry which was almost a quarter of Yunnan's GDP in 2016, up sharply from 14% in 2010.

- Fixed asset investment (FAI) in Yunnan province has grown rapidly over the past ten years. Despite the slowdown in China's economic growth, total annual FAI in Yunnan province rose to US\$242.7 bn (RMB1.6 tn) in 2016, nearly three times the amount in 2010. Projects and opportunities arising from the B&R initiatives and rising border cooperation are expected to drive greater investment flows to Yunnan in the coming years.

- By sector, real estate, transport, utilities and manufacturing accounted for the largest amount of Yunnan's FAI in 2016. Half of the investments were self-raised while domestic loans and state budget accounted for 18% and 13% of the FAI respectively, suggesting strong private sector's initiative in seizing business opportunities.

Two-way investment flows

- Reflecting the close cooperation between Yunnan and ASEAN as well as rising business opportunities on both sides of the border, data from the Yunnan Provincial General Chamber of Commerce showed that the government of Yunnan Province has so far invested US\$10 bn in Myanmar while private investments from Myanmar into Yunnan totaled US\$100 mn to-date.

ASEAN: Rising Economic Bloc

- ASEAN's 10-member bloc has a combined GDP of US\$2.6 tn in 2016, which has nearly doubled since 2007. This is the 7th largest economies in the world. In terms of population size, ASEAN population of 630 mn not only makes it an attractive outsourcing market due to lower labour costs in countries such as Myanmar and Cambodia, but also increasingly a consumer market given the rising income level (GDP per capita of US\$4,050).

- With the establishment of the Asian Economic Community (AEC) in late-2015, trade and investment within its member countries is set to advance further as trade, investment, capital, and people flows increase.

Favourable demographic and income trends

- The favourable demographic and income trends will drive ASEAN economies to become one of the top economic regions for investment with its single production base and a large consumer market for global corporates. We expect the size of ASEAN economy to be larger than Japan's economy by 2030.
- ASEAN member countries are amongst the top of China's trading partners, comprising 60% share. For ASEAN, outside of intra-regional trade, China is the largest trade partner accounting for 15% of ASEAN's trade share. With the B&R Initiative,
- China's outward direct investment (ODI) flows into ASEAN had doubled to US\$14.6 bn in 2015 from 2013. We see the potential for greater economic links between ASEAN and China as a whole.

Yunnan-ASEAN Connectivity

- Yunnan is a key part of the Greater Mekong Subregion (GMS) program that is being funded by the Asian Development Bank. The GMS connects Cambodia, China, Laos, Myanmar, Thailand and Vietnam, targeting implementation of high priority subregional projects in transport, energy, telecommunications, environment, human resource development, tourism, trade, private sector investment, and agriculture.
- The province is also a key part of the Bangladesh-China-India-Myanmar Economic Corridor (BCIM). Despite initial delays in take-off, there is great potential for cooperation in connectivity, trade, investment and sustainable development. There is also a plan for a road linking India's Kolkata and Kunming, the capital of Yunnan.
- Various highways improve the land transport link between Yunnan and ASEAN. The 1,900km Kunming-Bangkok Expressway opened in 2008 runs from Kunming to Bangkok via Laos. There are also plans for Singapore-Kunming Rail Link (SKRL) – a high-speed railway (HSR) linking China's Yunnan Province to Singapore via Laos, Thailand, and Malaysia under the B&R.
- There are also four national-level border cooperation zones in Yunnan – Ruili, Wanding and Lincang which aim to promote trade and investment with Myanmar as well as in Hekou which serves Vietnam. Preferential tax policies amongst others have helped to attract investments into these regions. A China-Myanmar Border Economic Cooperation Zone is currently being planned.
- Yunnan has also established various cooperative platforms with the bordering countries, including the Joint Committee on Coordination of Commercial Navigation on the Lancang-Mekong River (JCCCN¹), the Economic Cooperation Consultation of Yunnan and Four Provinces of Vietnam, the Yunnan-North Thailand Cooperation Working Group, the Yunnan-Myanmar Economic and Trade Cooperation Forum among others.
- As the Yunnan-ASEAN connectivity gradually becomes stronger and more visible, more business opportunities will be present on both sides of the border.

Opportunities From Deepening Cooperation

- Yunnan is ASEAN's gateway into the enormous market in China. Similarly, China can increase its presence in ASEAN through Yunnan. This constructive relationship will propel further trade and investment between the two regions.
- The potential in ASEAN makes for a compelling proposition for China which is now propelling an outward orientation mindset. Initiatives such as the AEC will be complementary to, and further enhanced by, other programs such as the Asian Infrastructure Investment Bank (AIIB), B&R Initiative, the upgrading of the China-ASEAN FTA, and Regional Comprehensive Economic Partnership (RCEP).
- B&R Initiative presents huge growth opportunities and channels for deepening cooperation between Yunnan and ASEAN. The regions are set to benefit from two of the six economic

Two-way connectivity

B&R presents huge growth opportunities

¹ JCCCN involves Myanmar, China, Laos and Thailand

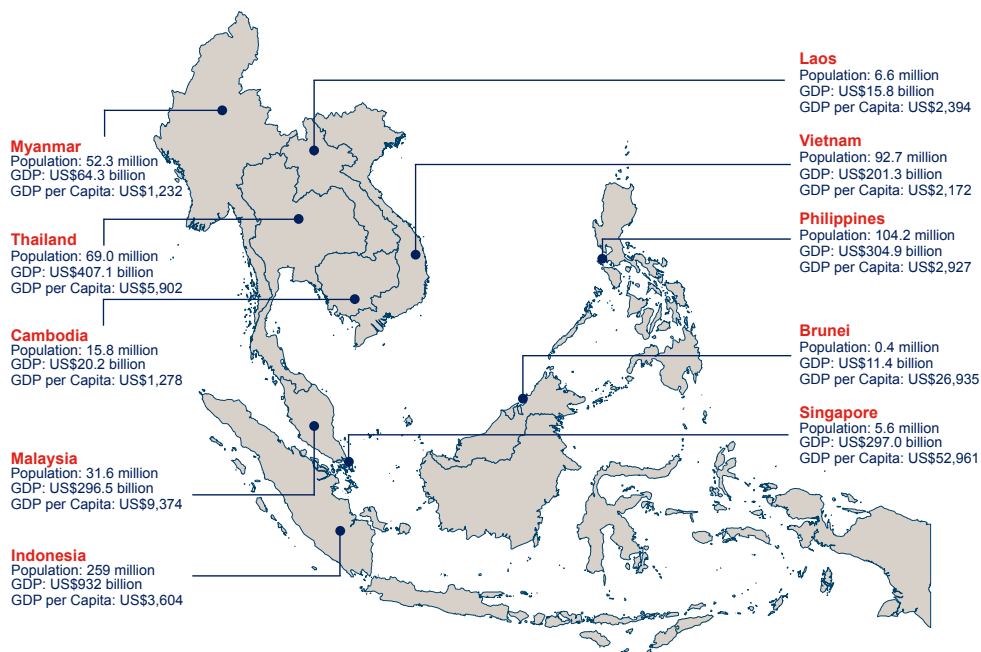
corridors under the B&R Initiative – China-Indochina Peninsula Economic Corridor and Bangladesh-China-India-Myanmar Economic Corridor. Under B&R, China is seen playing a crucial role in filling the infrastructure gap in the ASEAN countries.

- The strong investment flows into transport, utilities, real estate, and manufacturing sectors in Yunnan is set to continue and these are expected to propel the income growth of the province.
- Tourism will be another key growth area in Yunnan where there is potential for deepening cooperation with the ASEAN countries, in particular the bordering countries.
- Other than trade and investment, the large population size in ASEAN and Yunnan will be one of the bases for rapid growth in consumption demand in the coming years.

Conclusion

As the main land link between China and major emerging ASEAN states of Myanmar and Vietnam, both Yunnan province and ASEAN are set to benefit significantly from the Belt & Road Initiative. Aside from geographical and historical links, this will be further enhanced by both economic potentials in Yunnan province as well as ASEAN region. ASEAN is the third most populous economic bloc in the world and the size of the economy is forecast to overtake Japan by 2030. As connectivity widens and deepens between Yunnan and ASEAN through policy coordination, facilities connectivity (such as infrastructure investment), trade and investment, financial integration, and cultural exchanges among peoples, it is reasonable to expect more business opportunities to arise as a result, and to benefit both sides of the border as China ushers in the new era.

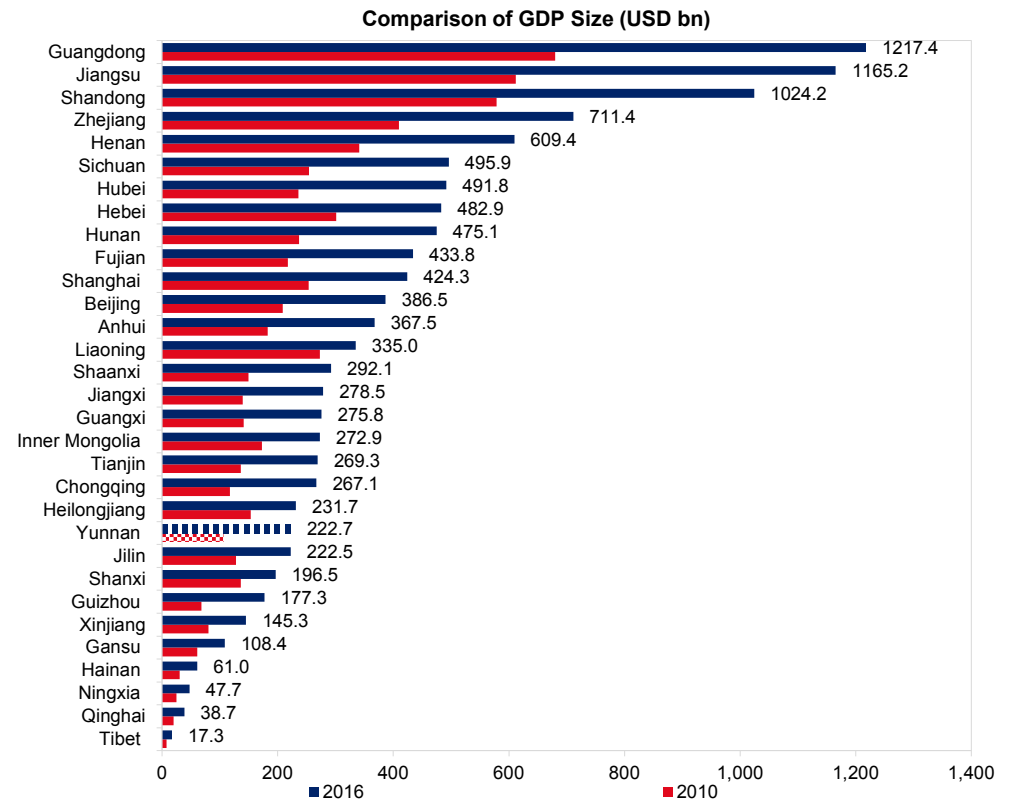
Market Opportunities In ASEAN



Source: IMF, UOB Global Economics & Markets Research
(Data As At 2016)

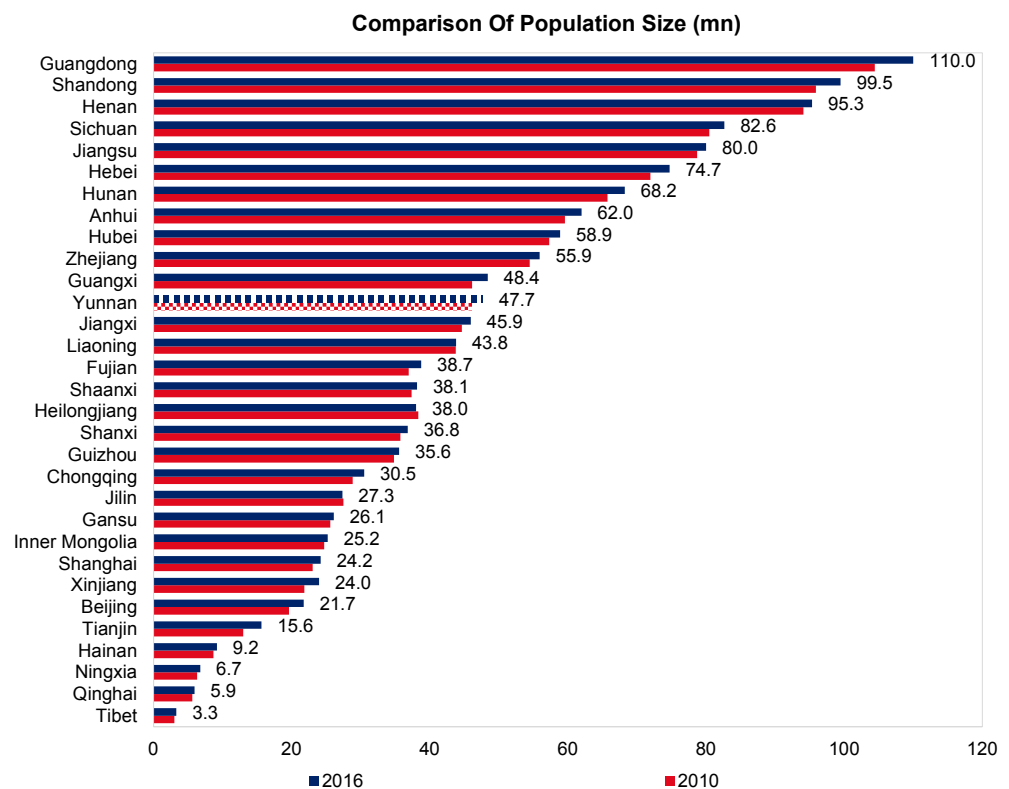
China: Yunnan's Nominal GDP More Than Doubled Between 2010 and 2016

Source: CEIC, UOB Global Economics & Markets Research



China: Large Population Size In Yunnan Will Be A Growth Driver

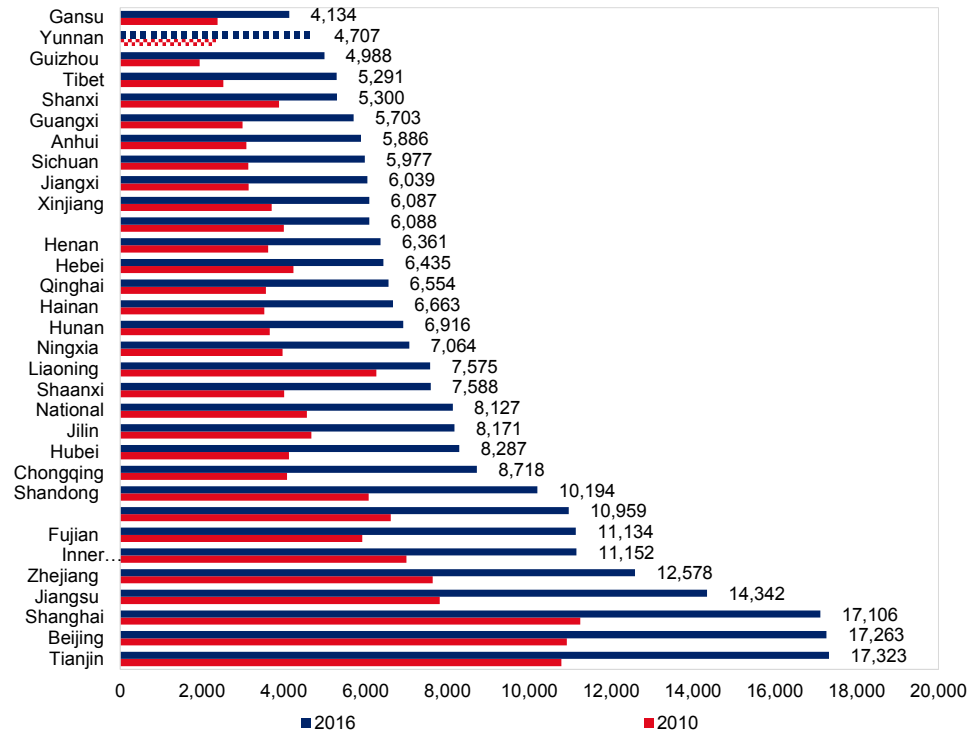
Source: CEIC, UOB Global Economics & Markets Research



China: Large Potential For Income Growth In Yunnan As Investments Rise

Source: CEIC, UOB Global Economics & Markets Research

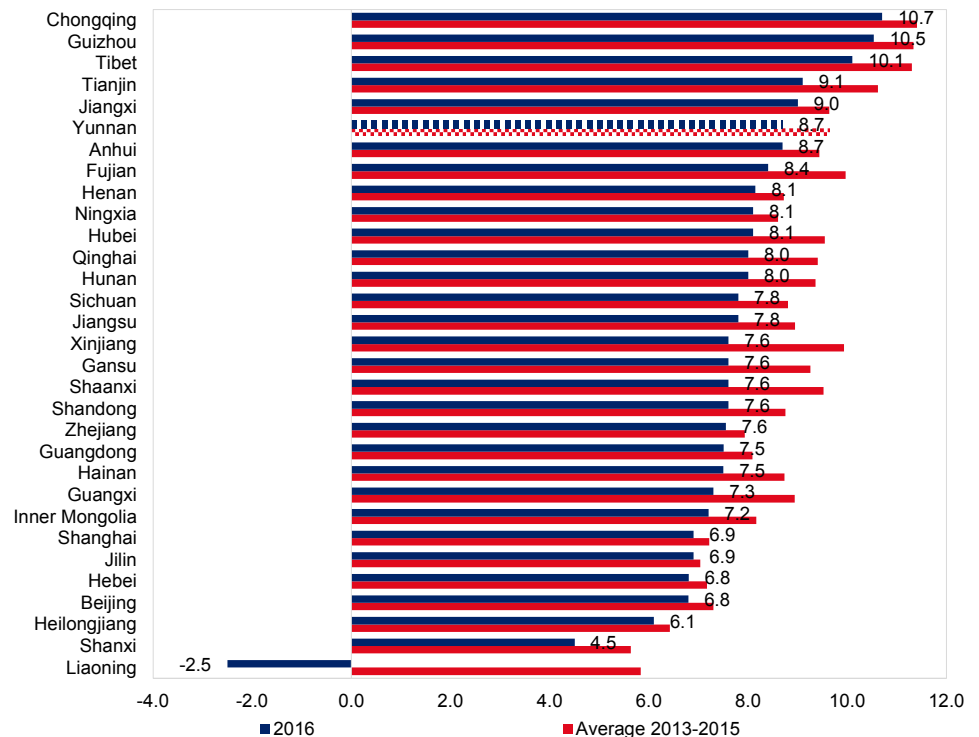
Comparison Of GDP Per Capita In 2016 (USD)



China: Yunnan Province Had Attained One of The Fastest Growth Rates

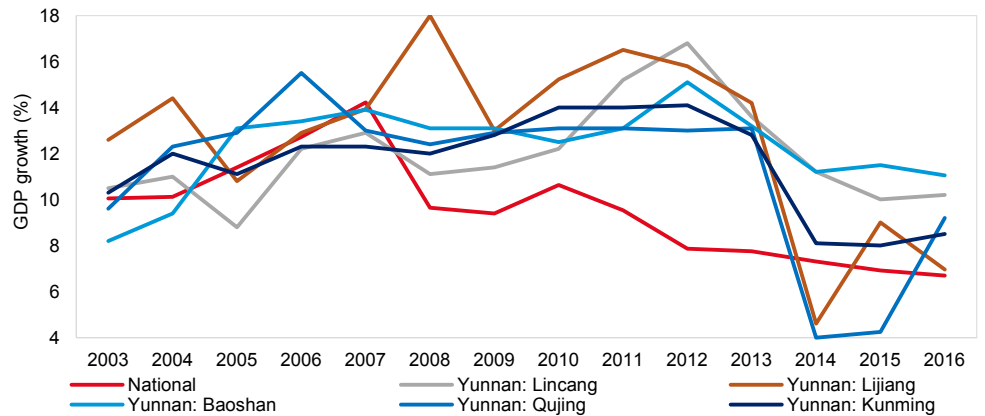
Source: CEIC, UOB Global Economics & Markets Research

GDP Growth By Province/Cities (%)



Yunnan: GDP Growth In Yunnan Cities Have Been Faster Than National Growth Since 2008 GFC

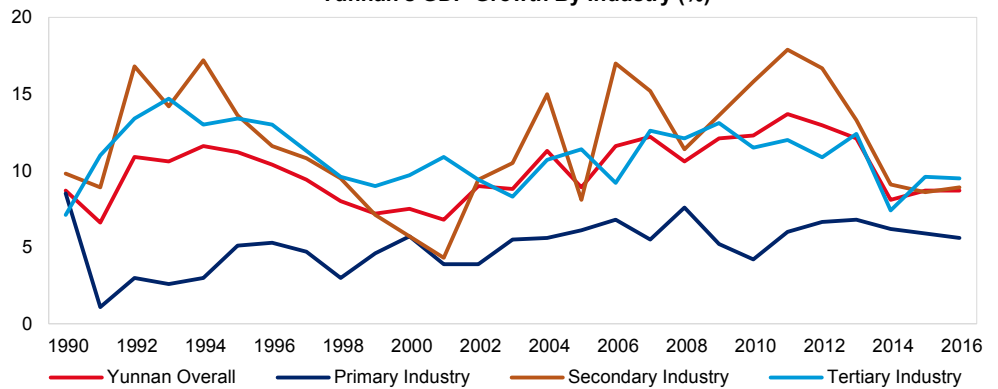
Source: CEIC, UOB Global Economics & Markets Research



Yunnan: Secondary And Tertiary Industries Remain Key Growth Drivers

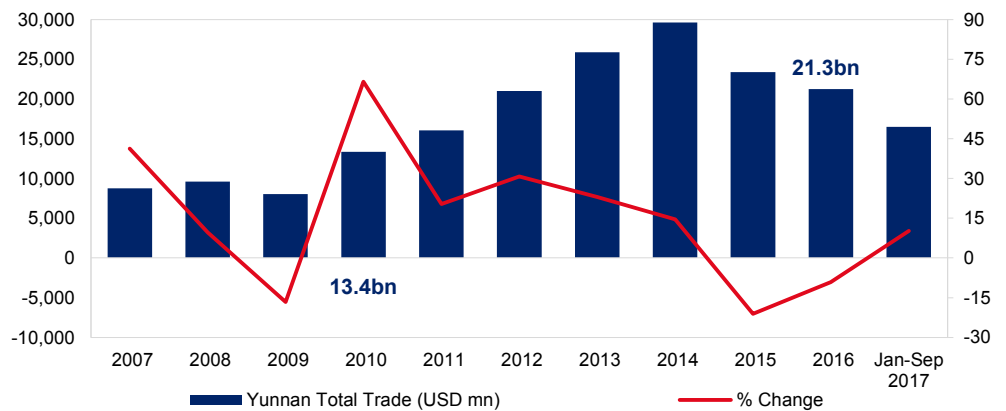
Source: CEIC, UOB Global Economics & Markets Research

Yunnan's GDP Growth By Industry (%)



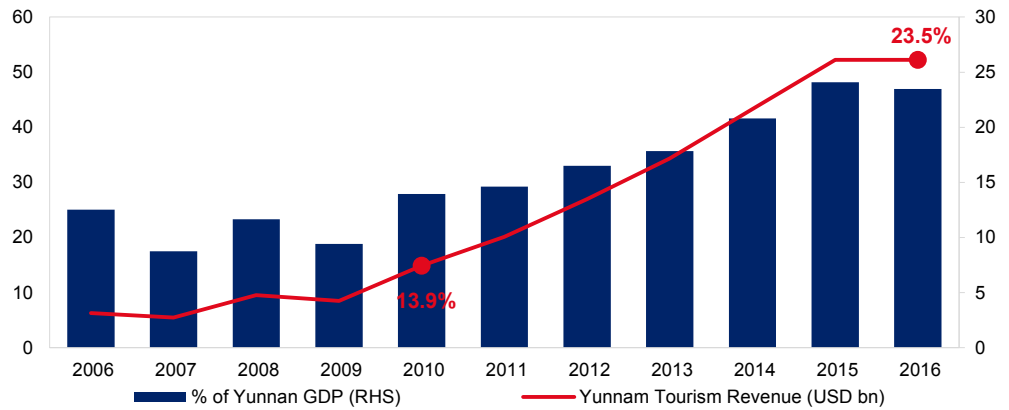
Yunnan: Total Trade Rebounding In The First Nine Months Of The Year

Source: CEIC, UOB Global Economics & Markets Research



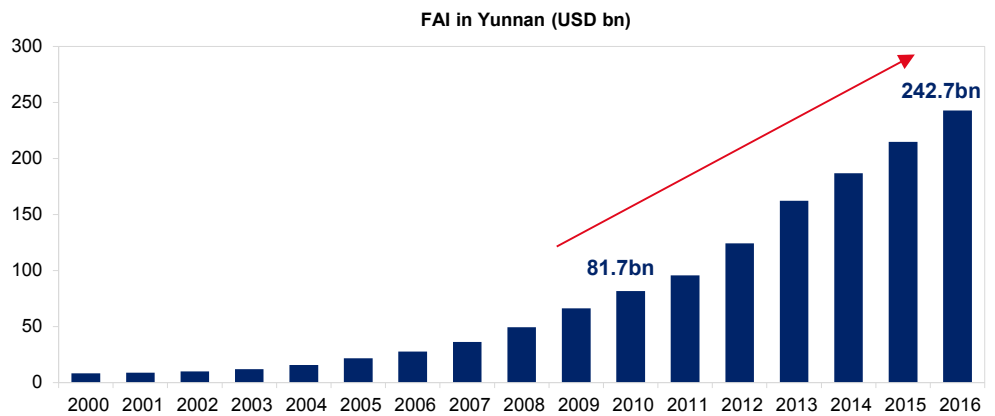
Yunnan: Tourism Has Become An Important Industry

Source: CEIC, UOB Global Economics & Markets Research



Yunnan: Investment Registered Sharp Increase In Recent Years

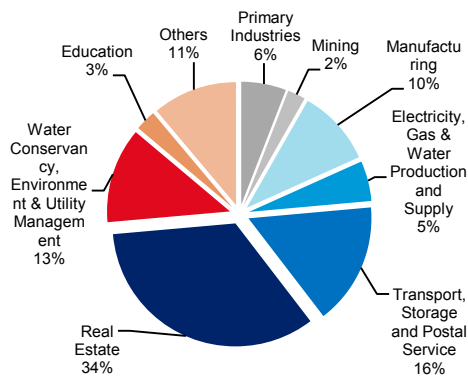
Source: CEIC, UOB Global Economics & Markets Research



Yunnan: FAI By Key Sectors

Source: CEIC, UOB Global Economics & Markets Research

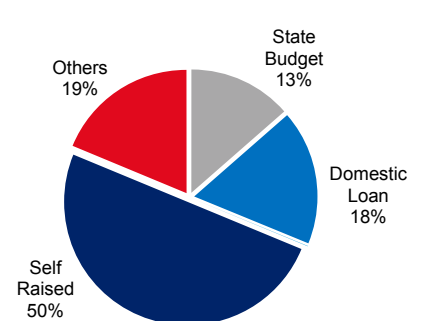
FAI In Yunnan By Key Sectors (2016)



Yunnan: FAI By Source

Source: CEIC, UOB Global Economics & Markets Research

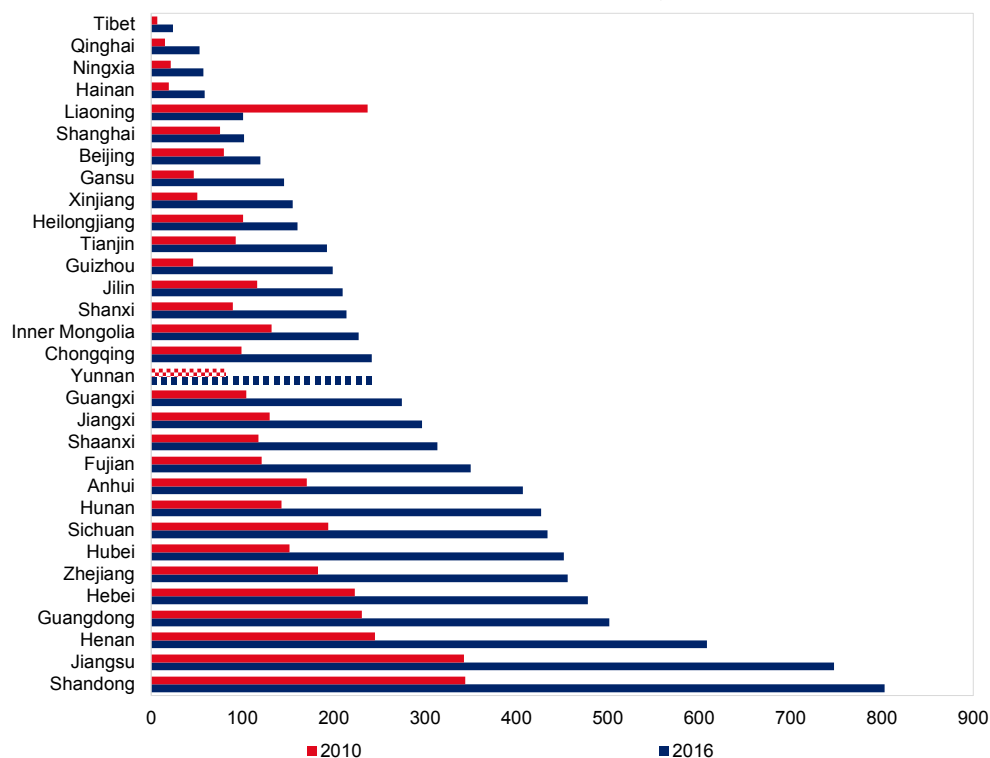
FAI In Yunnan By Source Of Funds (2016)



Yunnan: FAI More Than Doubling Since 2010, Similar To The Trend In Key Chinese Provinces/Cities

Source: CEIC, UOB Global Economics & Markets Research

Annual Fixed Asset Investment (FAI) By Province (USD bn)



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