CHINA OVERLOOK 2018

Analysis of the Chinese Economy trends
Comparison with EU and ASEAN countries

The World is in rapid and constant evolution. Having a global awareness and understanding of these changes is fundamental in order to better plan the future and make optimal decisions. In this report, we will try to explain the different issues and relationships that constitute the 21st century, focusing particularly on the EU, China and the ASEAN. We believe that providing general information and economic facts will help to answer the concerns and the doubts of any person willing to invest in China.

The 20th century was marked by the era of globalization. The intensification of trade, collaboration and integration among nations changed the international system as a whole, making the World a "global village" (Marshall McLuhan).

Globalization rose trade opportunities, increased information sharing and removed some barriers (i.e. cultural). Nevertheless, the latter also complexified the international relations, created an interdependency between nations and somehow reinforced the gap between the World's economies, evolving at different speed.

Since the 2008 financial crisis, however, the forces are changing. The shift from a globalized World to a multi-polar World can be observed, with the reemergence of different poles and centres. Europe, China and Asia are part of this transition and compete to develop their own area of influence.

Throughout this paper, we will compare the economies of EU vs. China and ASEAN vs. China, analyzing the trends and making some forecasts about the future. For the sake of relevance, we chose to focus on the EU and ASEAN unions rather than on the European and Asian continents as a whole for our comparison.

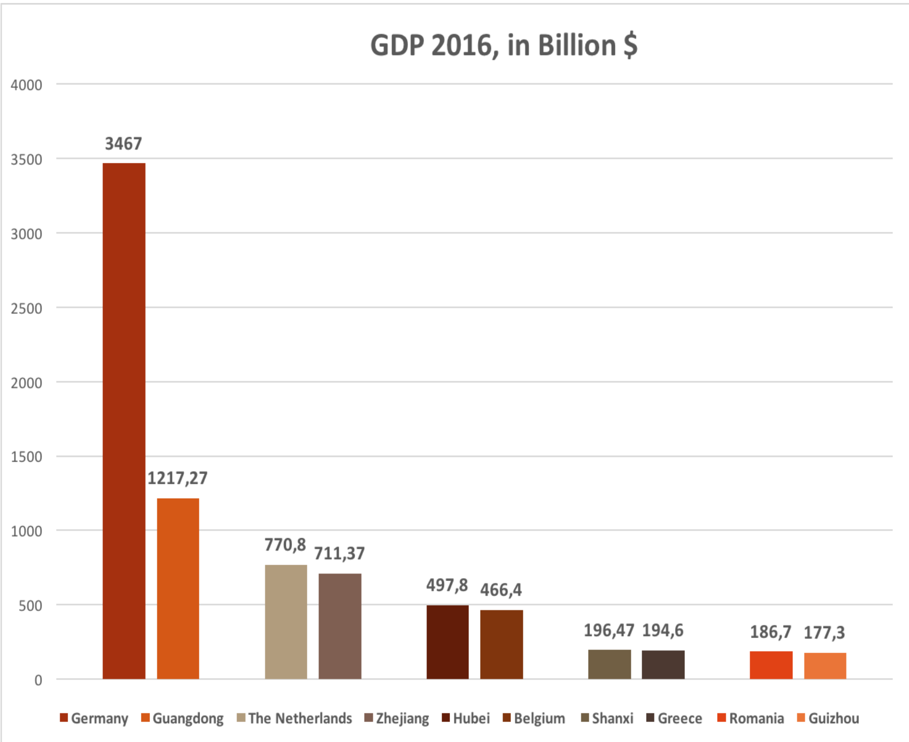
The *European Union (EU)* is an international organization, whose primary objective at its creation was the promotion of peace as well as cooperation within the region. First established in 1993, with the ratification of the Maastricht Treaty, this singular union redesigned the international relations of the 20th century and marked a turning point in History. Nevertheless, from its 12 founding states to its nowadays 28 members, the European Union has been through a lot of changes. The most remarkable one being the European Single Market (1993) that allows free movement of goods, services and people within the "territory". Today, the EU covers an area of around 4,5 million km² and has a population of 508 million inhabitants, ranking as the World's third largest population after China and India. According to the World Bank, with a $16.3 trillion GDP in 2016, the EU is ranked as the 2nd World's largest economy behind the United States and followed by China. It accounts for 26.45 percent of the World economy. Among the 28 EU members, 19 of them are also part of a monetary union and share a common currency: the Euro, established in 1999 but officially into service since 2002. This subgroup forms the euro area, representing around 340 million inhabitants and $11.9 trillion GDP in 2016.

Recent strides in the EU

The rapid expansion of the EU not only triggered many opportunities but also some challenges over time. The difficulties encountered in the past few years in terms of internal political instability, climate change, justice, security, migration, unemployment and others shaped the current European market. A lot of debates are now going on regarding the future of the EU. Questions are the following: Will the EU tend towards integration or division over the next few years ? Is it strong, flexible and unified enough to confront these crisis as a single supranational entity ?

EU Countries vs China's provinces

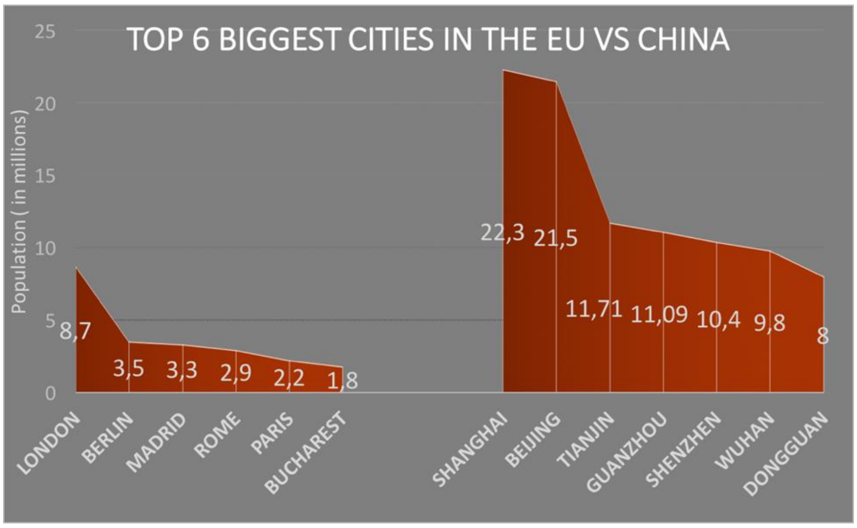
This graph is a comparison between the EU's countries GDP and China's provinces GRP. The results highlight the economic power of China, whose provinces are as wealthy as some EU countries.



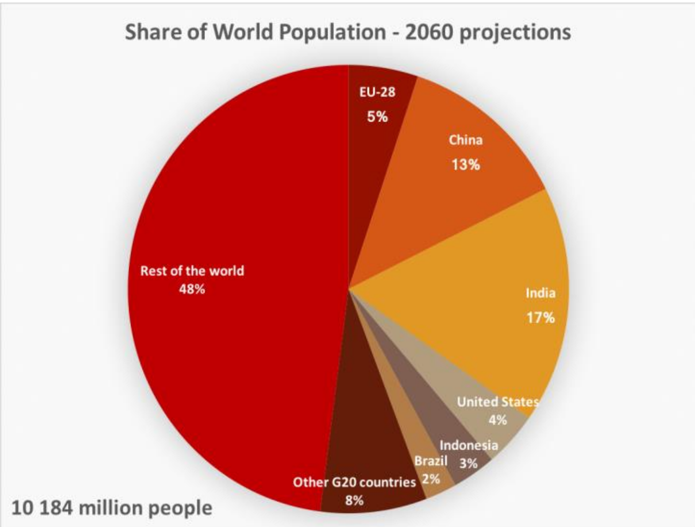
Source: World Bank

The demographic factor is concerned with a population's size and structure.

This graph underlines the six biggest cities of the EU and China in terms of population size, without taking into account the urban areas. It shows that China far outweighs the EU with respect to population density. In fact, the sixth biggest city of China (Dongguan) is as populated as London, which was the most populous city of the EU in 2016 with 8,7 millions inhabitants.



Source: World Bank & World Population, 2016



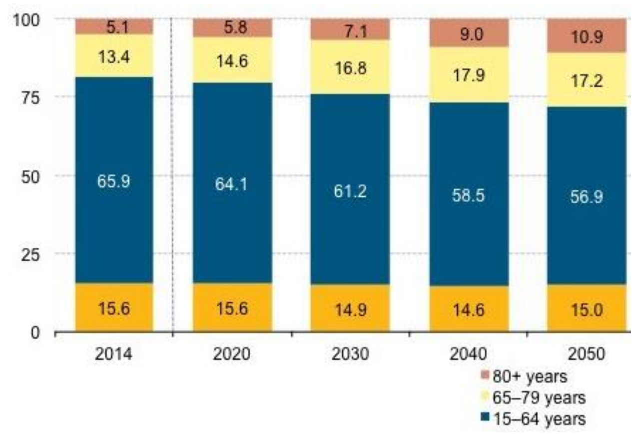
Source: Eurostat

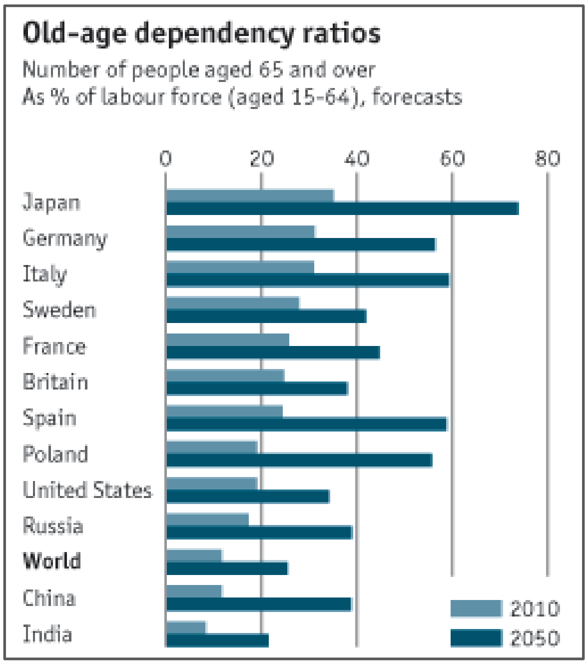
In 2017, the EU's population reached an historical number of 511.8 million inhabitants. The latter is ever-growing due to the EU enlargement and to the high levels of migration but, in reality, only represents a small proportion of the World population (around 7%).

On the contrary, China is still the World's largest population with more than 1,388 billion people in 2017 (approximatively 19% of the World total population). As outlined on the graph, the forecasts show that China will stay on top of the rankings for the next thirty years overtaken by India, but that its share will decline over time just like the EU's.

EuroStat also estimates that the EU will be confronted to an increase of its ageing population in the coming years: from 13.4% of the total EU population to 17.9% between 2014 and 2040. The reasons behind these numbers are: a decline in birth rate and a longer life expectancy, due to better living conditions. This change in population structure will directly impact the EU economy. Indeed, not only it might be synonym of a productivity slowdown but also a factor of stress for the working labor force.

Population Structure by age group – EU 28
Source: Eurostat





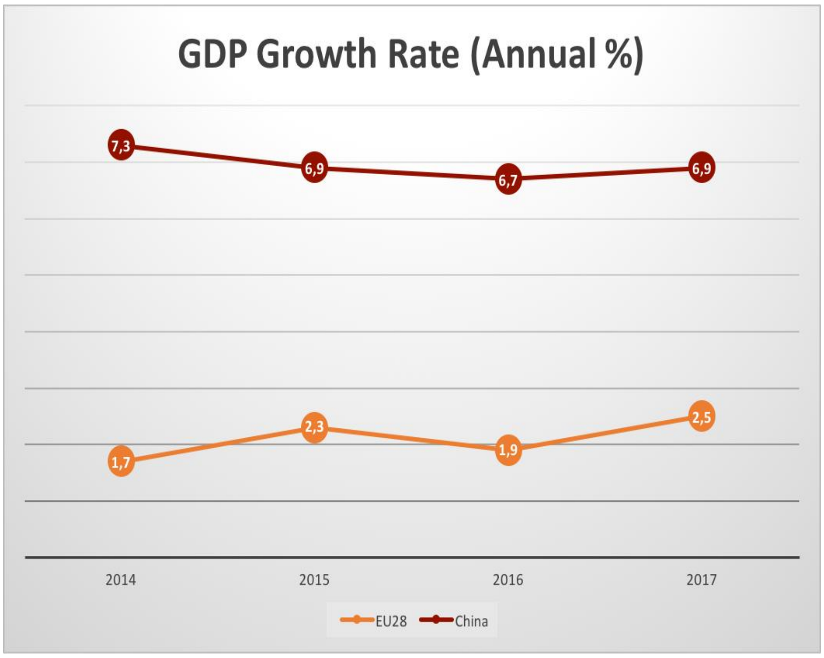
Source: European Commission

In fact, a huge rise in the dependency ratio (measure of the economically inactive population as a share of the active one) would imply the non-ability of the working class to support the dependent population and therefore affect the sustainability of the whole social care system, constituent of the European core values. China's population is currently less mature than many EU countries and will continue to do so for the next 40 years following on the predictions. According to the European Commission, in 2050 the number of its elderly people will represent 40% of its total population against 43% for France or even 59% for Italy.

China is aware of the link between young population and economic growth and this is the reason behind the end of its one-child policy in 2015. The country currently allows families to have two children "to improve the balanced development of population and to deal with an aging" according to The Central Committee of the Communist Party of China.

Economic Trends

The EU gives evidence of the World split between the West and the East. These dynamics are discernible when examining the GDP Year on Year growth rates within the EU itself : there is an enormous disparity and wealth inequality between its members.

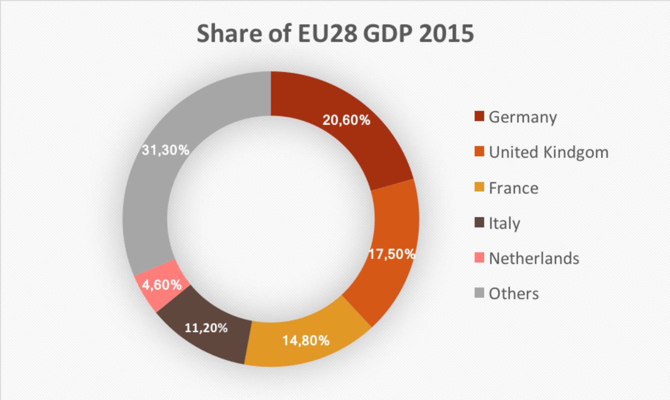


Source: World Bank, Eurostat & Trading Economics

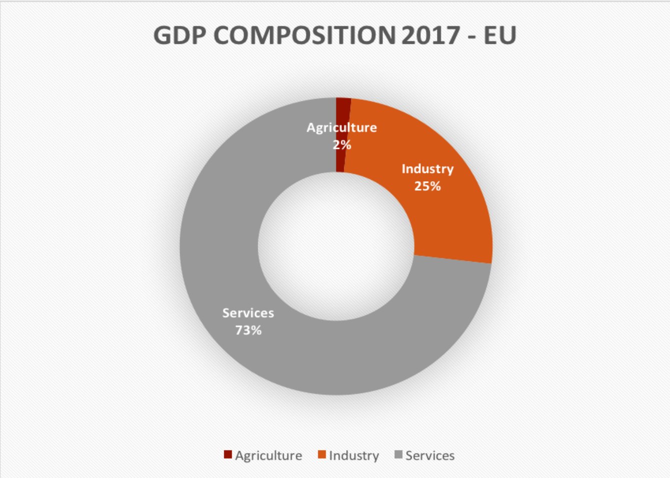
If we consider the EU as a unique entity, however, its annual GDP growth tends to be upward throughout the years and reached the extraordinary rate of 2.5% in 2017.

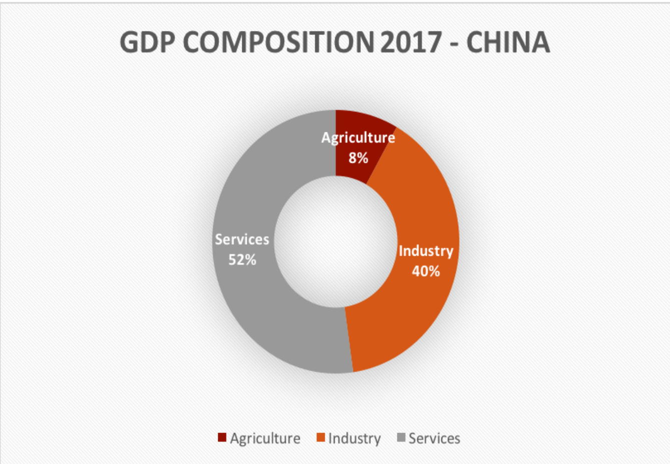
Regarding China, its real GDP has a YoY GDP growth rate of almost 7% for the same year. Therefore, even though the EU economy is gradually recovering from the crisis, China is always one step ahead. Its economy is still growing really fast compared to the EU that faced an overall decline in the past years.

Source: Eurostat



In 2015, Germany was the most important contributor of EU 28's overall GDP, followed by the United Kingdom and France.





Source : IndexMundi

STEFANO CATOZZI

Chartered accountant

"A strong growth that can last for a longer period combined with structural reforms is boosting the internal consumption demand. China is moving from being the "factory of the World" to being the "factory for domestic needs"."

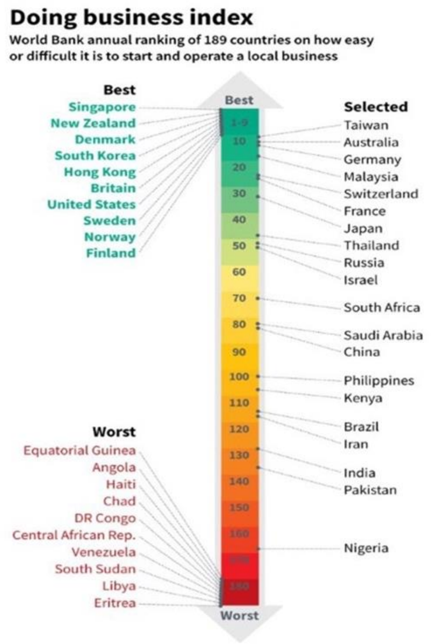
When comparing China and the EU in terms of GDP composition, it can be notified that the service sector forms the foundation for both economies.

Nevertheless, the industry sector also constitutes a considerable part of China's GDP (40%) whereas it only represents 25% of the EU economy, which is largely dominated by services (73% of its overall GDP).

Ease of doing Business

The World Bank's annual Doing Business 2017 is a ranking of 190 Economies out of 193 United Nation members states, that measures the easiness of doing business according to various criteria. The outcomes of this index show that there is a positive correlation between high-income economies and business-friendly regulations. European Union countries, being on average developed economies, are well-positioned owing to the efficiency and quality-oriented of their regulatory systems.

Denmark, that ranks third of the list, is the most successful EU country followed by Sweden (no. 9) and Finland (no.13). High skilled workforce, competitive taxes, flexible labor market along with low business costs are key drivers that allow one nation to be competitive and distinguish from the others.



Source: World Bank

Following on its opening-up policy, China reformed its economy and took radical measures in order to build a strong positive image worldwide and attract more investors. Among them, the following can be reported:

Simplification of the pre-registration, registration and post-registration formalities

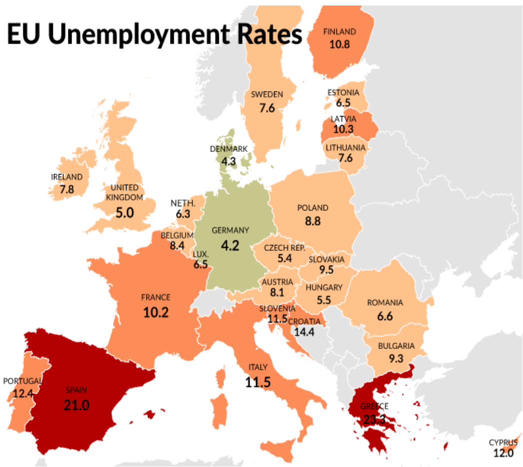
Reduction of the registration fees

Expansion of the scope of information collected and reported by credit bureau or registry

By simplifying the procedures, reducing the business costs as well as being more transparent and trustful, the country improved its results and yearly ranking in terms of Ease of conducting business, until reaching the outstanding 78th position in 2017.

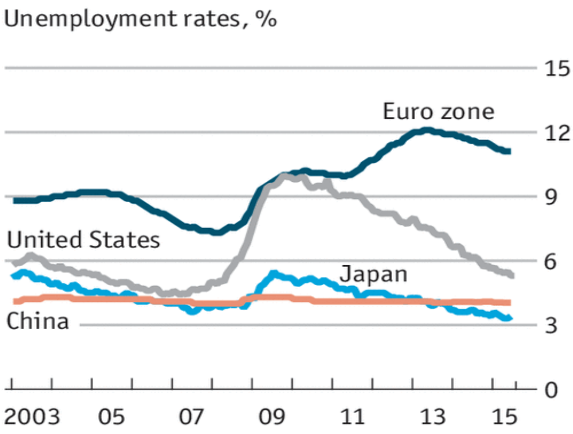
Unemployment

Since the beginning of the Great Recession in 2008, the EU is touched by the plague of long-term unemployment. Throughout the years, the unemployment rate has risen substantially, up until its peak of 12% in 2013 representing around 27 millions of inhabitants. The first victim of this critical situation is the young population with, on average, 20% of youth unemployment within the territory. As illustrated on the map, the rates are unequal between the members states. Indeed, although some of them like Germany are performing well, half of them were above the EU average of 8.5% in 2016.



Source: Trading Economics

The lack of flexibility on the labor market along with its strong regulations and rigidities, the decrease in the overall demand and therefore in the job supply are the main factors that thrived the EU in this unfavorable environment.

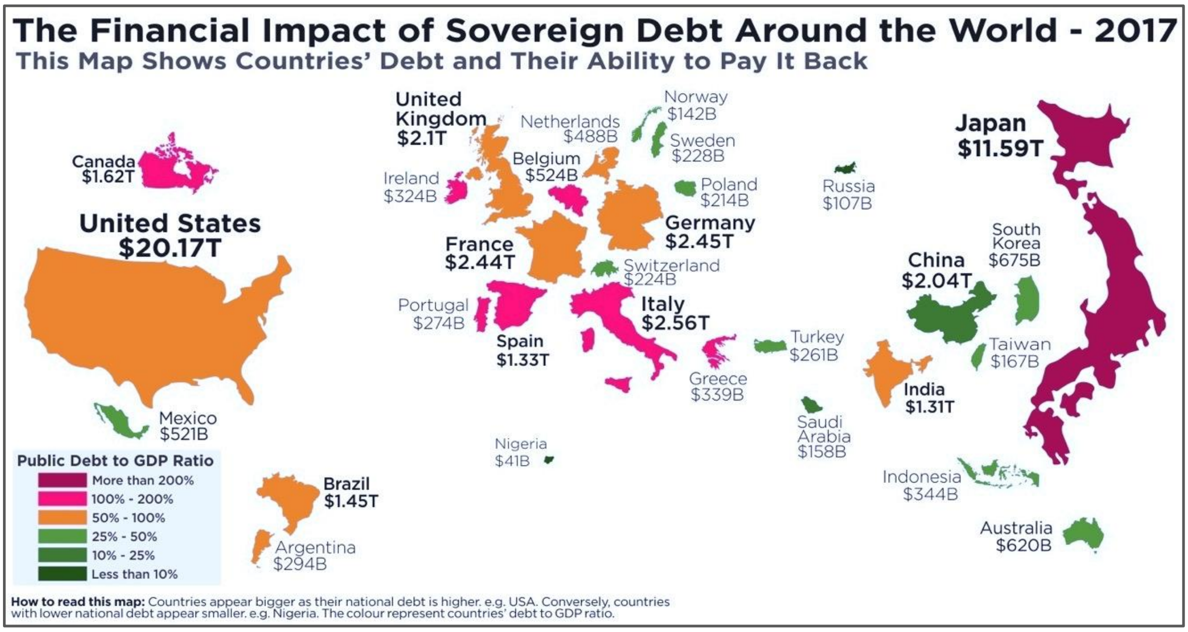


Source: WindInfo

In the opposite, China's urban unemployment rate remained relatively stable for the ten past years, moving around 4%. Nevertheless, the new strategy adopted by the Chinese government in its Five-year-plan in terms of economic stimulus slowdown, would be likely to have an adverse impact on the Chinese labor market and thus on the country's unemployment rate.

To counterbalance the negative effect of economic restructuring and slowing growth, China aims to create more jobs every year, while maintaining its unemployment rate below 4.5%. In 2017, its official target was to create at least 11 million jobs and resulted in 13.51 million new jobs at the end of the year.

Financial Crisis



Source: U.S. Treasury Department

The financial crisis of 2007–2008 not only affected the financial sphere but also damaged the entire global economy as a whole. The EU, among others, was seriously affected by this crisis. Within its member states, Greece, Italy, Portugal, Ireland and Belgium are the ones that suffered the most debilitating losses with important sovereign debt defaults. In 2012, their government debt to GDP ratio was superior to 100%, for an average of 84.9% in the EU, meaning that these countries' economy were not performing well enough to be able to pay back their debts.

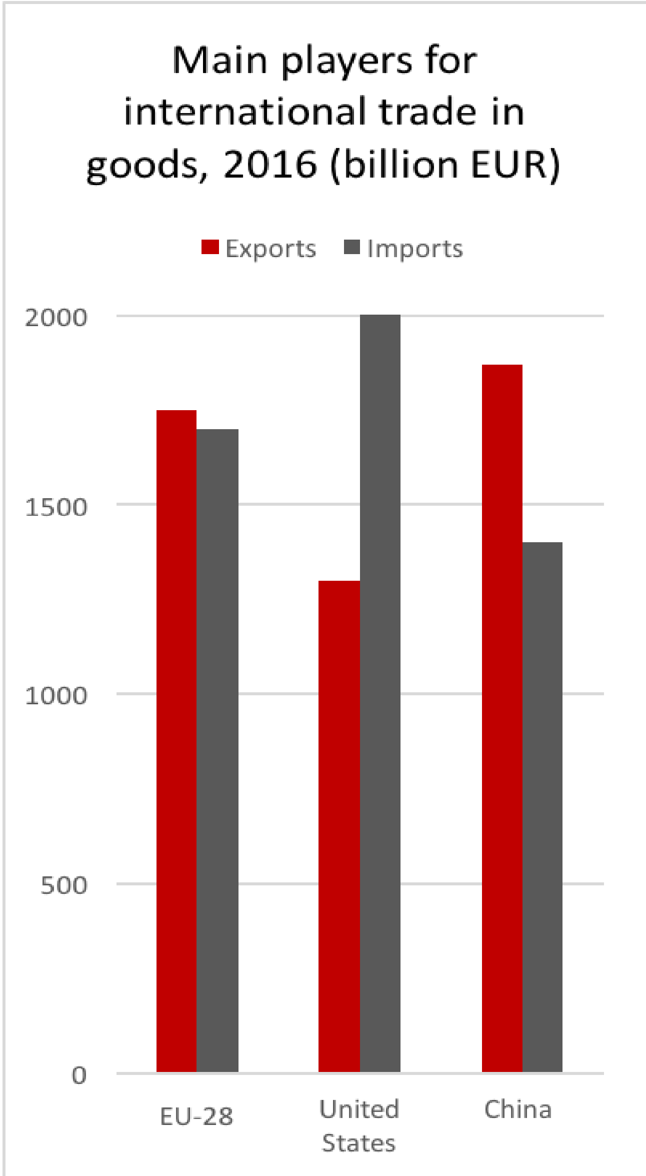
Therefore, austerity plans and economic reforms were introduced to fight the "great recession" and support potential growth in the long run. Today, ten years have passed since the crisis, but nothing has changed and its consequences are still visible. As described on the map, many EU's countries are encountering difficulties to repay their public debts. Due to its strict capital control, China suffered limited financial losses during the sub-prime crisis but its real economy was impacted by the global financial crisis downturn.

The country, indeed, experimented a slowdown: from 13% GDP in 2007 to 8% GDP in 2008. However, owing to its good economic results, its debt to GDP ratio remained inferior to 10%.

Trade and Investment

Since 2004, the United States, the EU-28 and China are the three largest players for international trade of goods.

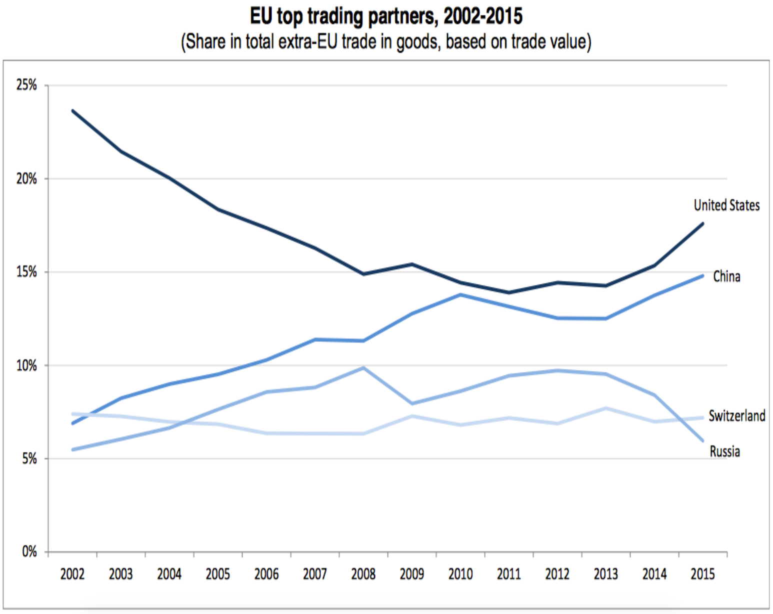
In 2016, unlike the United States, the EU-28 and China ended up with a positive surplus of respectively €38 billion (around $47 billion) and $736 billion. The huge difference in trade balance between both of them, due to China's higher exports and lower imports, is the evidence of the country's rise as a global economic superpower.



Source: Eurostat

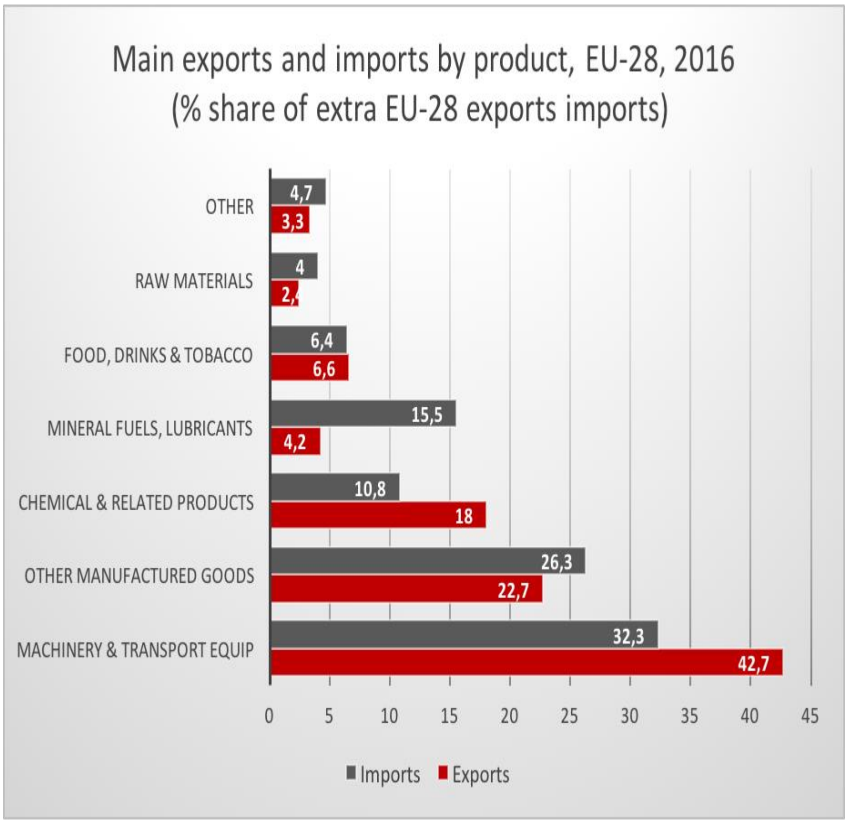
Considering EU extra-trade only, EU-28's main trading partners are the United States and China, representing respectively 17,8% and 14,1% of its total trade in goods. Trends show that, since 2002, both of them maintain their leading position, even though they evolved quite distinctively. Indeed, the United States' share has been decreasing until 2011 where it began to grow again, whereas China's share has risen from year to year until it doubled in 2015.

As described previously, China is EU's second largest trading partners but the converse is not true. Indeed, China's main trading partners regarding merchandise and goods are the United States, Hong-Kong, South Korea, Japan and finally Germany. In 2016, they represented more than 45% of its total exports.



Source: Eurostat

Among the EU-member states, Germany, the UK, France, Italy and the Netherlands are the EU-28's main trading partners in 2016, with reference to merchandise and goods.



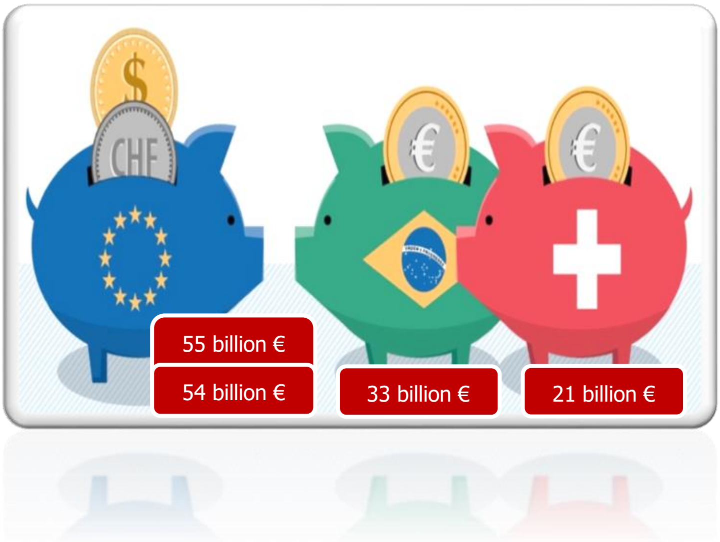
Source: Eurostat

When examining the exports and imports composition, it can be observed that both the EU-28 and China trade are dominated by the same type of products.

Indeed, EU-28 countries' exports and imports are principally made of machinery and transport equipment as well as other manufactured goods, chemicals or related products.

Regarding China, just like the EU, the country mostly exports electrical and mechanical equipment, including computers, mobile phones or cars and imports integrated circuits, crude petroleum, gold, iron ore and cars. The latter also exports furniture, clothing, medical apparatus or plastics.

Foreign Direct Investments

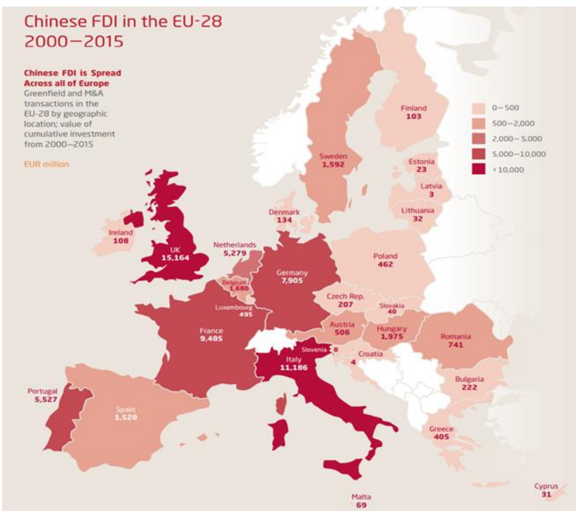


In 2016, Foreign Direct Investment (FDI) for the EU fell sharply. Indeed, it amounted to 280 billion euros inflows (41% decrease compared to 2015) and 186 billion euros outflows (68% decrease compared to 2015). Switzerland and the US were revealed to be the top two investors in the EU, with respectively 55 billion euros and 54 billion euros invested, and Brazil and Switzerland to be the top two destinations for the EU investments, accounting for 33 billion euros and 21 billion euros.

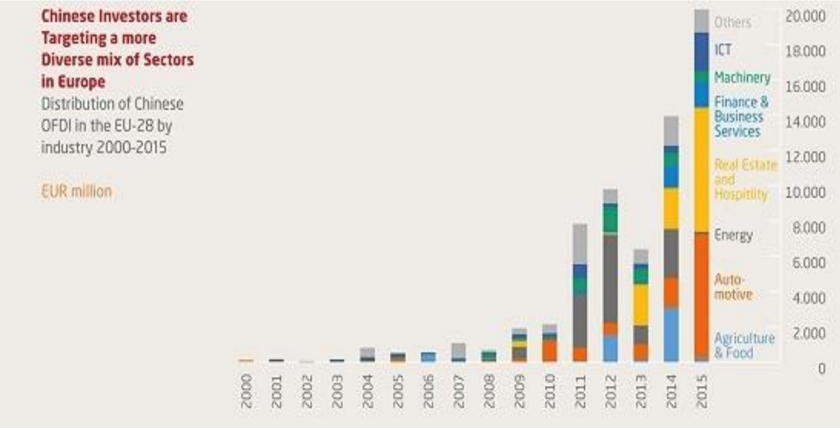
China's FDI have increased substantially over time. The country has now become the second most important source of outward FDI and the third-largest recipient worldwide. Indeed, in 2016, the its inward FDI represented an amount of $133 billion (4% increase year on year) and its outward FDI reached a record of $188.8 billion (30% increase compared to 2015).

In 2016, Hong-Kong, Singapore, South Korea, the United States, Macao, Chinese Taiwan and Japan appeared to be the main investing countries in China. With regards to the FDI outflows, according to the Ministry of Commerce People Republic of China (MOFCOM), Asia would be the first key investment destination for China, followed by Latin America and North America, composing around 74%, 8% and 7,4% of its total outward FDI. More specifically, in 2017, the five top destination for China investments were Singapore, the United States, Hong-Kong, Malaysia and Australia.

Over the past fifteen years, the UK, Italy, France, Germany and Portugal were the main EU-28 countries investing in China as well as the main recipients of Chinese FDI transactions.



Source: Rhodium Group

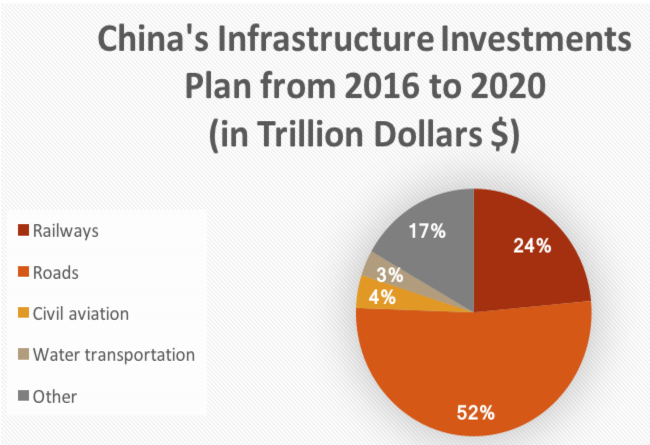


Source: Rhodium Group

Regarding the nature of the investments, in 2016, EU-28 investments in China were mainly focused on the automotive and chemicals sectors whereas Chinese investments in the EU-28 were more diversified and covered different areas including automotive, real estate as well as ICT or Finance and Business Services.

Infrastructures

Infrastructure is the pillar of a country's economic development and prosperity. It plays a critical role in meeting the growing and fundamental needs of our society. Also, by connecting people and communities, infrastructure creates job opportunities and allows goods as well as services to move more efficiently.



Source: China Money Network

Nowadays China is the worldwide leader in terms of infrastructure investment. In recent years, the Chinese government has spent a lot in infrastructure to counterbalance the weakening of its economic growth, resulting in more spending than Europe and the U.S. combined. In 2017 indeed, the country announced it would spend more than RMB15 trillion (US$2.17 trillion) on transportation and infrastructure projects during the 13th Five-Year Plan from 2016 to 2020, including railways, roads, civil aviation as well as water transportation.

As described on the graph, railways constitutes more than 20% of China’s infrastructure investments over the next five years. After roads, it is the second sector China aims at developing in terms of infrastructure, especially high-speed railway. In 2017, the country launched “Fuxing”, the first bullet train entirely designed and manufactured by Chinese engineers. Boasting a top speed of 400km/h and a consistent one of 350km/h, the latter is expected to travel between Shanghai and Bejing in a three hours and a half time instead of five hours currently and to serve more than 505,000 passengers daily. China has more than 22 000 km of high-speed railway representing around 60% of the World’s total.

2017: China’s first self-developed bullet train “Fuxing”

Source: Asia Insurance Review

The country's plan for the future is to continue down this path and to increase transport and logistics efficiency not only at the national but also international level. This is the idea behind the Belt and Road Initiative (BRI) story.

The BIR aims at connecting China to Europe through two main trade routes, on land and sea, focusing on the European Union (EU) as an ultimate target: the Silk Road Economic Belt through Central Asia and the Twenty-First Century Maritime Road through South and Southeast Asia.

It is a massive and revolutionary project that involves three continents and more than 63 countries which amount for 30% of the global GDP and 60% of the World's population. Through the BRI, China's final objective is to access the World's largest and richest consumer market: the European Union market. To do so, China has been increasing over the years its presence in Eastern Europe and Central Europe as a gateway to the rest of Europe.

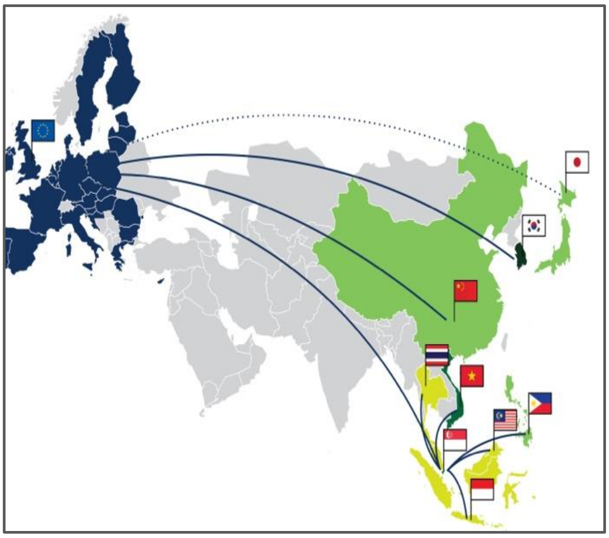
One good example is the creation in 2012 of the China's "16+1 initiative" (or China-CEEC Cooperation), a platform for economic and trade cooperation with 16 Central Eastern European countries, including 11 EU members. The different infrastructure projects made by China are also representative of its offensive within the continent (Belgrade's and Budapest's high-speed railway etc).

Within the framework of the Maritime Silk Road, Chinese state-owned firms have followed the same logic in Southern Europe and made a lot of acquisitions, ending up with about one-tenth of all European port capacity. Cosco, one of the biggest state shipping firms along with China Merchants, recently bought Athens's Piraeus Harbor to use it as a platform in the Mediterranean Sea.

Quite skeptical about the potential benefits brought by the Belt and Road initiative at the beginning, many EU countries are changing their views and becoming more receptive to it as a way to foster economic growth, without the financial cost attached. EU increasingly need for China's support and cooperation pushes the union to actively take part in this project in order to create more trade and investment opportunities within the territory.

In a nutshell, the BRI provides China with financial means to invest in infrastructures projects worldwide, which are expected to bring many long-run benefits for the EU and China; by dismantling trade barriers and allowing free trade agreements. For China, it is also a strategic way to expand its influence in Europe and more specifically in the EU.

By reducing the natural barriers of time and the cost of moving information, people, goods as well as capital, globalization brought huge benefits for the EU and China. It opened new opportunities for the firms, making easier for them to have access to new markets, technology and financing sources, and therefore allowed them to be more efficient. With regards to consumers, globalization not only increased the variety but also the availability of the products, at lower prices. Last but not least, globalization boosted economic growth while increasing wealth. Indeed, according the European Commission, the World economic integration would be responsible of about "one-fifth of the increase in EU-15 (countries with EU membership before 2004) living standards over the past 50 years".



Nonetheless, the rise in market competition in terms of traded goods and services can also be synonymous with threat. The rapid emergence of some countries such as China and India, more competitive in terms of labor costs, had negative impacts on the EU and might be a cause of net employment losses. Indeed, China is one of the country that benefited the most from globalization. By exploiting its comparative advantage in cheap labor, the country stimulated its export-driven high GDP which allowed it to position as an economic superpower. However, the latter is also increasingly confronted to a decades-long brain drain that it tries to reverse with talent programs, bonuses or incentives to come back.

Therefore, in order to maintain their competitive advantages and benefit from globalization, the EU and China should constantly analyze its effects on their overall performance and, accordingly, design and set out appropriate policies. For both of them, globalization brought some advantages and drawbacks but they do recognize mutual benefits in the long-run from an increase in their economic cooperation.

Consumer Changing Needs

As mentioned previously, globalization had a direct impact on firms but also on consumers worldwide. First of all, with the competition rise on the global market, the purchase choices increased providing many consumption alternatives for consumers at reasonable prices. Moreover, the development of Internet and technological advancements also changed the consumption behaviors. Indeed, today's consumers want to acquire goods and services quicker, in a more efficient way than before. This is the reason behind the offline to online channels shift and the jump in electronic payment systems. Regarding the online payment revolution, China is light years ahead of Europe. While European people keep using cheques and bank cards, Chinese have moved from using cash to using phones, through QR codes.

According to China Internet Watch, in 2016 around 469 million Chinese made online payments (31,2% increase from 2015) and 50,3% of them used phones to pay in offline retail stores. Alipay and Tenpay are the two main players of the mobile payments market with respectively 54% and 40% of shares, as well as 30,7% and 22,2% of other online transactions.

In EU countries, on the contrary, the most common payment method used for online purchases is credit or debit card. Nevertheless, there is no uniformity within the EU and the latter can change according to the country's special needs and preferences. For example, in the Netherlands people use the national payment method iDeal for online purchases, in Germany they commonly pay by invoice, in Poland they prefer Bank transfer etc.

Globalization also impacted consumers' behaviors in terms of environment awareness. Indeed, consumers are now increasingly concerned about environment issues and integrate them in their daily decision-making. Organizations and nations have to face the implications of this environmental friendly shift and provide adapted solutions.

Country	Payment Method	%
Austria	Invoice	43%
Belgium	Visa/Mastercard	51%
Croatia	Digital wallet	53%
Czech Republic	Bank transfer	58%
Estonia	Bank transfer	67%
France	Visa/Mastercard	45%
Germany	Invoice	51%
Hungary	Cash-on-delivery	54%
Ireland	Digital wallet	46%
Latvia	Visa/Mastercard	56%
Italy	Digital wallet	51%
Lithuania	BankLink	66%
Netherlands	IDeal	84%
Poland	Bank transfer	52%
Portugal	Digital wallet	62%
Romania	Cash-on-delivery	69%
Slovakia	Cash-on-delivery	72%
Slovenia	Cash-on-delivery	53%
Spain	Digital wallet	57%
Switzerland	Visa/Mastercard	55%
UK	Digital wallet	46%

Most popular payment method per country,
Source: DPD E-shopper Barometer

Environmental policy

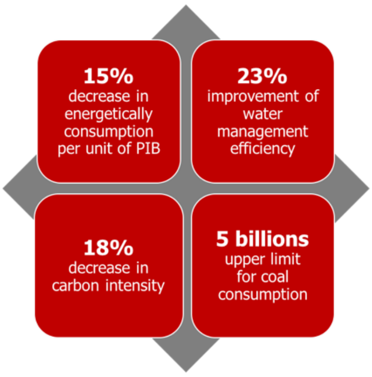
For the past thirty years, the protection of the environment has always been one of the EU's priorities. Following on, the EU is nowadays considered to have some of the world's highest environmental standards. Its main objective is to improve the health, wellbeing and quality of life of its citizens by protecting the Earth's natural resources and "green" the EU economy. It believes it must play an important role in promoting a sustainable development globally and consequently implements and formulates climate strategies as well as policies at the international scale. Its current policy up until 2020 is based on the 7th Environment Action Programme. In this regard, the organization agreed to meet three key targets: 20% cut in greenhouse gas emissions (from 1990 levels), 20% of EU energy from renewables, 20% improvement in energy efficiency.

China, for its part, viewed for a long time climate change initiatives as a conspiracy from the western World to limit its rapid growth. The country has just recently shifted from this idea and has engaged within the framework of the actual 13th 5 year-plan (2015-2020) to fully integrate the ecological dimension in every single aspect of economic, politic, cultural and social development.

The blue skies initiative, for example, is one of the measures taken by China to protect the environment. The main objective of the latter being cleaning up the big cities' air pollution. To do so, China aims at reducing the coal consumption in target cities: from 5% to 10% reduction per city between 2015 and 2020. By doing that, China hopes the final outcome to be around 140 millions tons coal reduction by 2020. Apart from that, the country decided to close many polluting factories, unless restructured, in order to meet the pollution treatments standards.

Beijing 2015, before and after alternating days for 5 million of cars were implemented for the first time, and factories forced to reduce their emissions

Green development is, indeed, among the country's five development concepts put forward by the CPC Central Committee in October 2015 for this 13th 5 year-plan , together with four other concepts — innovation, coordination, opening-up and sharing. Based on that, the global objectives of this new environmental plan are:



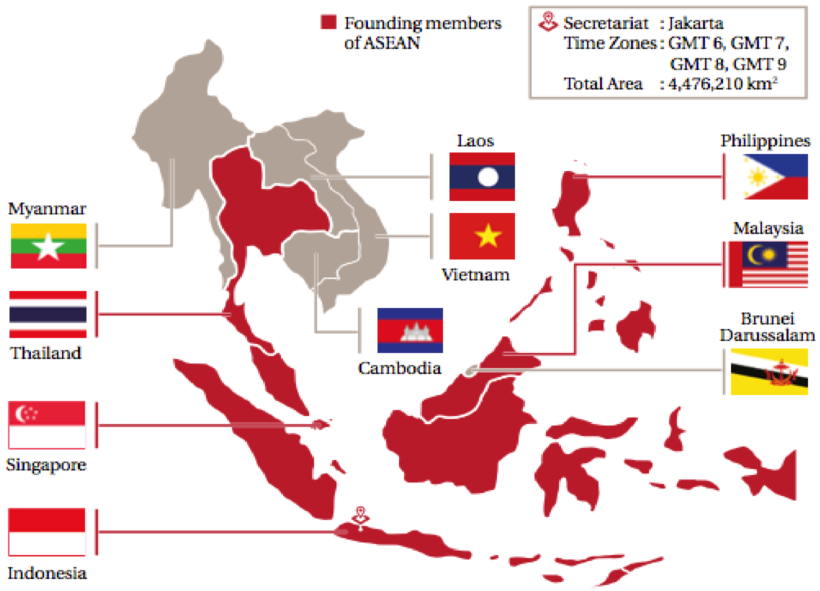
China ranks first Worldwide in terms of research and development spending of clean energy and electricity, and will pursue this way in the future. Indeed, the country committed to double these R&D investments over the next five years, reaching an amount of 7.6 billion dollars by 2020. Nowadays, China is the World's largest renewable energy producer and it will spend more than $360 billion through 2020 on renewable technologies such as solar and wind.

With this environmental protection new plan, China shows it assumes its role of economic superpower by taking responsibilities for its past actions. Through its different policies, the country wants to maintain its leading position in the energy transition towards a cleaner and sustainable development path.

ASEAN: The Region

The Association of South East Asian Nations (ASEAN) is a consensus-based intergovernmental organization that was first founded in 1967 by: Indonesia, Malaysia, the Philippines, Singapore and Thailand. Today this regional union further encompasses: Brunei, Cambodia, Laos, Myanmar, and Vietnam. As a single economy this diverse and dynamic region has a population of 630 million people with a $2.4 trillion GDP, this impressive figure amounts to the 3rd largest economy in Asia and 5th largest economy in the World.

In December 2015, ASEAN launched the ASEAN Economic Community (AEC) which aims to foster economic, social, and cultural cooperation in the region by means of moving towards a single market and production base with the free flow of good, service, labor, and capital with a roadmap towards 2025. This union is ever expanding it is reach with free trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) which is encompasses China, India, Japan, South Korea as well from Greater Asia and Australia and New Zealand from Oceania.



Comparing ASEAN Countries to China's Provinces

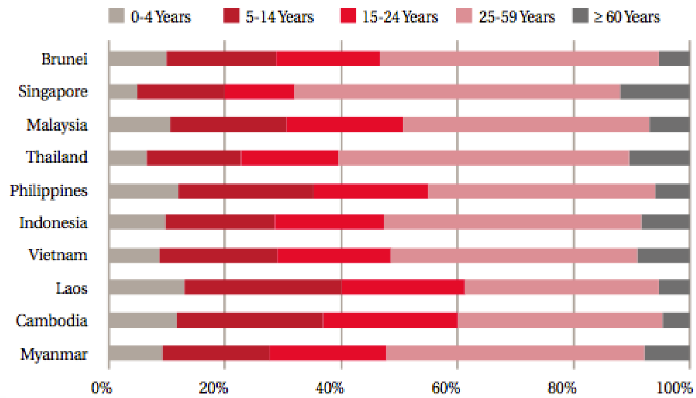
Indonesia GDP: $1,010,937 Mn	Shandong GRP: $1,024,110 Mn
Thailand GDP: $437,807 Mn	Fujian GRP: $433,740 Mn
Philippines GDP: $321,189 Mn	Liaoning GRP: $334,930 Mn
Malaysia GDP: $309,858 Mn	Shaanxi GRP: $292,060 Mn
Singapore GDP: $305,757 Mn	Shaanxi GRP: $292,060 Mn
Vietnam GDP: $215,963 Mn	Yunnan GRP: $222,640 Mn
Myanmar GDP: $66,966 Mn	Hainan GRP: $61,020 Mn
Cambodia GDP: $22,252 Mn	Qinghai GRP $38,730 Mn
Laos GDP: $17,152 Mn	Tibet GRP $17,340 Mn
Brunei GDP: $11,963 Mn	Tibet GRP $17,340 Mn

Population Demographics

Source: World Population Review & UNIDO

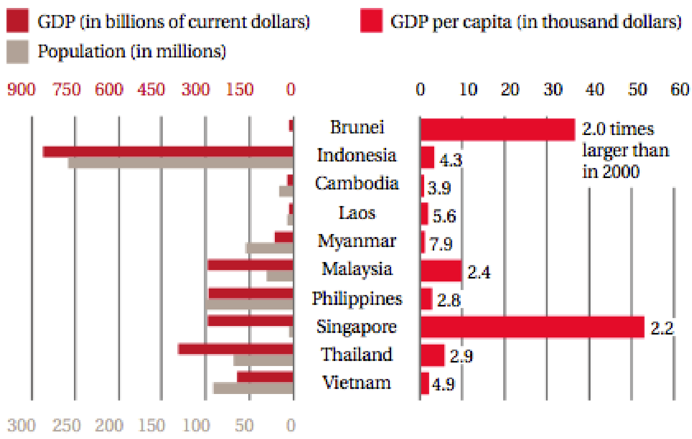
1. **Jakarta, Indonesia**
   Population: 10,135,030
   GRP: $438.7 B n
2. **Bangkok, Thailand**
   Population: 8,305,218
   GRP: $366 Bn
3. **Ho Chi Minh City, Vietnam**
   Population: 7,981,411
   GRP: $127.8 Bn
4. **Hanoi, Vietnam**
   Population: 7,067,000
   GRP: $26.5 Bn
5. **Singapore**
   Population: 5,399,000
   GRP: $316.872 Bn
6. **Yangon, Myanmar**
   Population: 5,451,439
   GRP: $26.921 Bn

The population of ASEAN grows annually at 0.85% but is slower compared to the global growth, however by 2030 the total population is forecasted to be at 717 million people. The demographic is relatively less mature compared to China with only 7.13% of the population above 65 years of age compared to 10.94% in China. A youthful demographic can mean many things including a larger workforce, faster technology adoption, and a larger market for youthful goods and services.

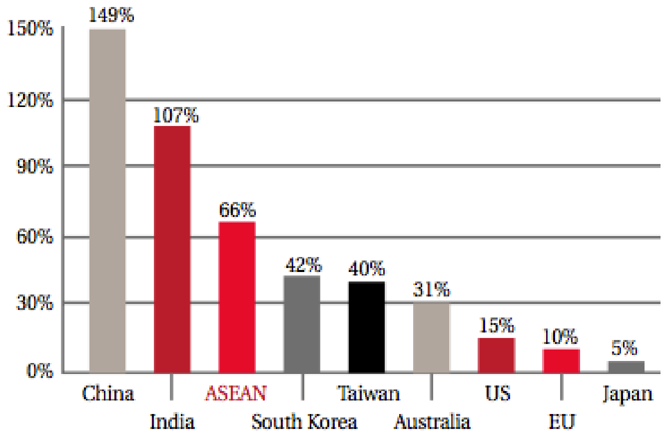


Source: United Nations University

The ASEAN economies are at different stages of development. When speaking in nominal terms, Singapore for example has the highest GDP Per Capita figure in the region which is close the United States and more than 5 times of China but a GDP amounting to just Shaanxi province. Indonesia has a trillion-dollar economy but a GDP Per Capital that is below Sri Lanka and less than half of China's figure. Cambodia, the 3rd smallest economy in the region has the lowest GDP Per Capita figure just under Lesotho. Considering that GDP Per Capita figure for ASEAN is 1/3 of the OECD, the economy is less mature than East Asia's and there are many underdeveloped opportunities in the region.

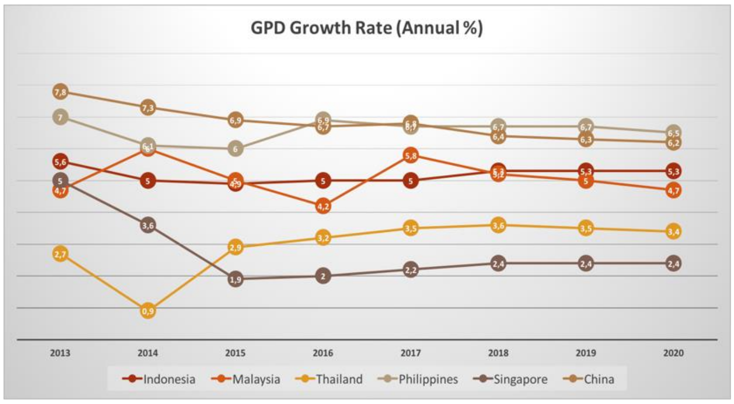


Source: World Bank's World Development Indicators, UN data for Myanmar"s 2000 figure



Source: International Monetary Fund World Economic Outlook, 2015 Data

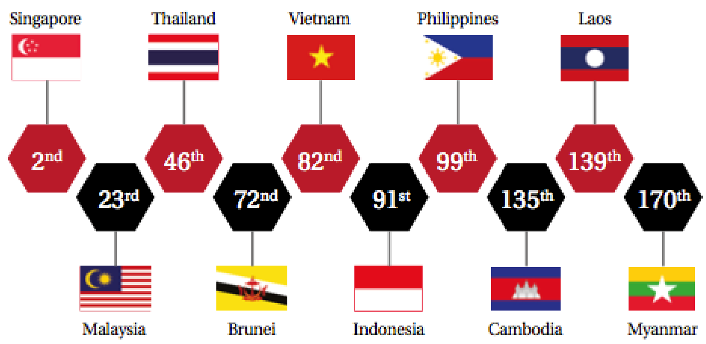
Today China's real GDP has a higher year on year growth rate compared with ASEAN, which is growing behind India. ASEAN however still put on a remarkable show being one of the fastest growers in the Asia Pacific region, from 2006 to 2015.



Source: World Bank

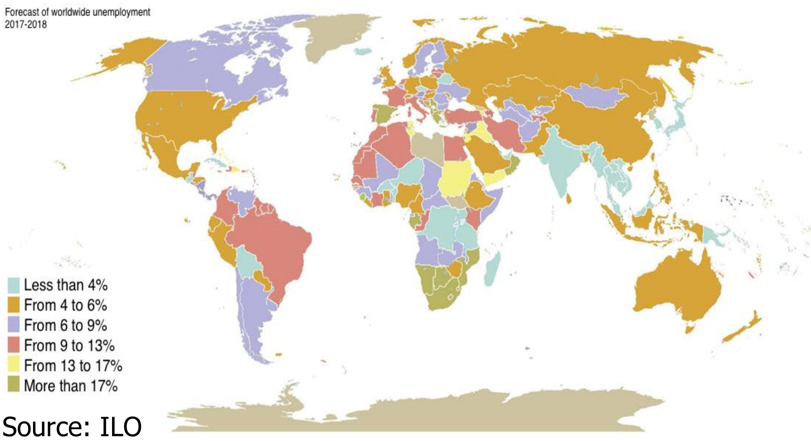
The ASEAN5's (Indonesia, Malaysia, Thailand, the Philippines and Singapore) year on year real GDP growth rate significantly increased since 2016 compared to China's stable rate. This is attributable to China's slowing birthdate, longer life expectancy and current overcapacity and debit with the opposite being mostly true in ASEAN. It is however predicted that in the near future, the ASEAN5's YoY rate will hold steady or decrease.

Ease of doing Business



The World Bank's annual Doing Business ranking shows that the ASEAN is a very diverse region. Myanmar ranks the lowest in the region at 170th globally, no small part due to its relatively recent political transition form into a military junta. Singapore ranks the 2nd globally just behind New Zealand. Six of ASEAN's member states perform worse compared to China's 78th place ranking. Regulatory uncertainty is a major force driving the low rankings of most ASEAN economies.

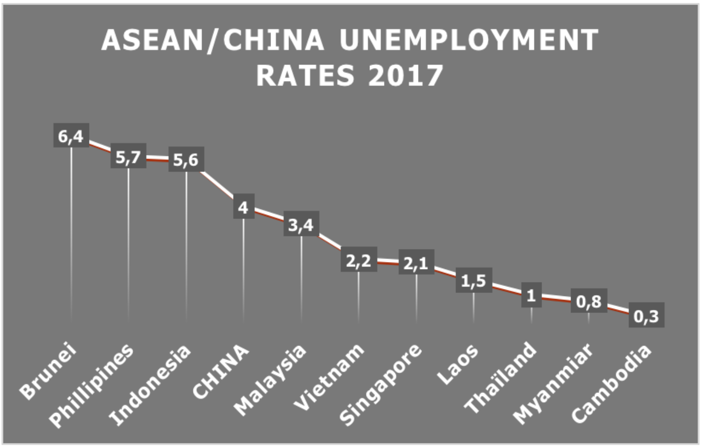
Unemployment



Source: ILO

According to the International Labour Organization (ILO) forecasts, there will be 2,7 million more people unemployed worldwide at the end of 2018. If we look at the South Asia Region, in 2017 Brunei, Philippines and Indonesia had the highest unemployment rates among the ASEAN members, superior to the China's 4%. It means that, within these countries, the increase of the labor force was way more important than the opportunities.

On the contrary, the other members of the union appeared to have a low unemployment rate for the same period. The latter could be explained by their good economic performance but also depends on the factors taken into account in the calculation. Cambodia, for example, is one of the World's leading countries in terms of unemployment rate. The country indeed continuously creates jobs in new industries such as garment and footwear manufacturing, entertainment or services.

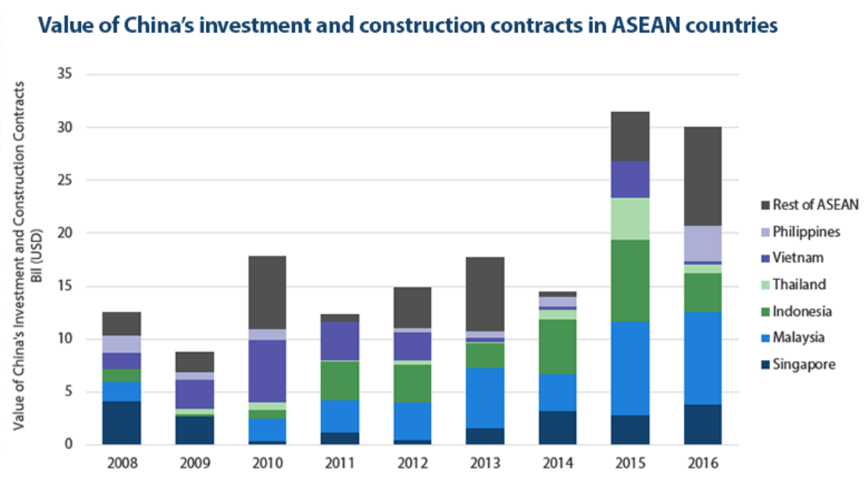


Source: World Bank

Nevertheless, the majority of these jobs are actually in the informal sector, which involves poor quality jobs linked to low wages, obliging people to combine at least two jobs to fulfill their basic needs. Moreover, the calculation made by the ISO and World Bank also includes "vulnerable jobs", meaning either not salaried at a family business or farm, or paid employment but for only one hour a week. Cambodia has, indeed, one of the highest rates in terms of precarious work within Southeast Asia, amounting around 60% of the workers. Hence, the international methodology for calculating unemployment used in developed nations, is not effective and meaningful in developing countries where they are less regulations and rules in the labor market.

The statistics showed that, while unemployment rate remained stable, the poverty rate increased by 17,7% in 2017. Therefore, unemployment should be taken into account when measuring a country's development but should also be combined with wages as well as poverty indicators to have a reliable and accurate overview of a country's economic health. China, in this aspect, achieved to maintain its low unemployment rate while decreasing poverty rate and increasing wages, with the setting up of a minimal wage standard.

ASEAN is one of the fastest economy of the last century and still has a strong potential for growth. By 2050, indeed, it is predicted to rank number four of the World's biggest economies. Aware of that, a lot of countries are now investing in this region and betting on the future benefits it could provide. Among them, China is taking the lead with regards to FDI investments in ASEAN, just before the US, Japan and Europe which were historically its main investors.



Source: Australia & New Zealand Banking Group (ANZ)

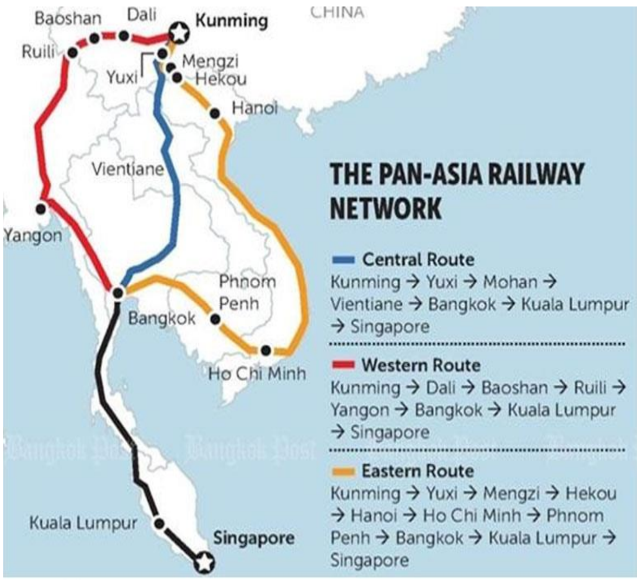
According to the ANZ: Malaysia, Indonesia, Philippines, Singapore and Thailand were the main destinations of Chinese FDI in ASEAN in 2016.

The same year, China accounted for 14% of net FDI inflows into Thailand, 8% in Vietnam and Indonesia, and 6% in Malaysia.

The ASEAN represents for China an attractive destination to relocate its labour-intensive industries due to its low labour cost and young population. Apart from the economic interest, its geographical situation is also a way for China to extend its influence within the region. These factors are the sources of the Belt and Road Initiative, set up by China. The Chinese financing of ASEAN's infrastructures, along with the Asian Infrastructure Investment Bank and the Silk Road Fund, will not only improve the economic interconnectivity within the continent but also facilitate its development.

Those infrastructure projects includes ports, with for example the development of Kuantan port in Malaysia, as well as long railway lines projects in Laos, Thailand and Indonesia. Indonesia, particularly, will mostly benefit from the latter as China has become the second largest FDI contributor of the country in 2017.

Following on, China is currently establishing the "Pan-Asia Railway Network", that should open by 2021. Consisting of three main routes, this network would run from Southern China through Laos to Thailand's industrial east coast. By building new high-speed rail lines, China aims at physically connecting both China and the ASEAN in order to improve long-run cooperation.



Source: Bangkok Post, 2015

China - Conclusion

As we have seen throughout this report, for the last years China has become one of the leading country of the 21st century. Leading country not only demographically speaking but also in terms of economic, military and political influence on the international scale. 中国, also called the Middle Empire, has finally found back its prosperity of oldest times and is growing really fast in many domains. Indeed, shifting from a centrally-planned to a market-based economy, China is now expanding its power worldwide.

Among all the elements that contributed to China's revival, the departing point is the economic aspect, with the launch of its "open-door" policy in 1978. The reforms made since then changed the structure of the Chinese economy and allowed the country to experience rapid growth as well as social development. The decrease in regulation, the decollectivization of the agriculture, the opening up to the World and foreign investment along with the privatization of many state-owned companies are examples of actions taken from which not only China but also many other countries benefited. With its opening policy, China undertook in 2010 an average GDP growth of 10 percent a year, a worldwide record. At the same time its poverty rate lowered substantially: from one of the poorest countries in the World in 1978 with around 43 percent people living in poverty conditions, it decreased to 13 percent in 2013. Taking advantage of its cheap labor cost, China quickly turned into the World's factory. By following its cost leadership strategy, China became competitive on the market and achieved a "stunning" economic growth.

Nevertheless, this fast expansion also brought issues for China. Indeed, the country is now confronted to a rapid urbanization causing many environmental problems, along with a high labor migration towards big cities, an increase in inequality and an aging population. Therefore, even though China's results and performance are currently still impressive internationally, it is indeed one of the largest contributor to World growth, the sustainability of its economy is now questioned in the long-run.

The government understood the challenges faced by the country and reacted by addressing them in its 13th Five-Year Plan (2015-2020). By putting innovation and "green development" at the heart of its new plan, China has sent an important signal: that the country's strategy for future prosperity shifted away from its environmentally costly development model, making the protection of the environment one of its top priorities.

Although China's long-term objective remains to become a "moderately prosperous society" by 2020, the latter realized that it could benefit from focusing on the quality of its growth rather than on its quantity and works hard to transform its largely labor-intensive, low-tech economy into one fueled by innovation in science and technology.

MANAGING PARTNER'S STATEMENT

Daniele Zibetti

Partner

Giovanni Pisacane

Managing Partner

Today, investing in China is still a great opportunity. China is the second World largest economy and, despite the country has experienced a rapid and huge economic growth in the past years, we are expecting a lower but more lasting improvement in many sectors related to green economy.

Furthermore, the legal environment is always implementing and becoming every day more international letting investors to operate more easily.

"Our purpose is to drive your business step by step into the Chinese market and provide you our decade expertise to overcome every possible difficulty."

Daniele Zibetti &
Giovanni Pisacane

OFFICES

SHANGHAI

Suite 2303, Huaihai China Tower

885 Ren Min Road, Shanghai

200010 China

Tel: +86 (0)21-33070001

BEIJING

Room 1105, 3 Tower, Wanda Plaza

No.93 Jianguo Road, Chaoyang District

100010 China

Tel: +86 (0)10-56291059

HONG KONG

Units 903-906A, 9/F, Kowloon Centre

33 Ashley Road, Tsim Sha Tsui

www.gwa-asia.com
info@gwa-asia.com