

Belt and Road

Economic Health Index

Navigating complexity by the stars

July 2017



Contents

Executive Summary	5
1. Introduction	7
2. The Index Measure	9
3. Headline findings	11
4. Exploring our Index in more depth	18
5. How has this picture evolved since 2005?	28
6. Conclusion	33
Annex 1 – Full compendium of results	34
Annex 2 – Overview of model and reporting coverage	39

ICBC Standard Bank

ICBC Standard Bank is a leading financial markets and commodities bank operating across both developed and emerging economies. ICBC Standard Bank Plc was formed in February 2015 when Industrial and Commercial Bank of China Limited (ICBC) acquired a 60% stake of Standard Bank Plc from Standard Bank Group. As a result, a compelling strategic platform was formed, one that benefits from a unique Chinese and African parentage and an unrivalled global network and level of expertise.

ICBC Standard Bank Plc is a strategic platform for serving the growing demands of our clients in Global Markets products, as well as distributing African risk. We specialise in global commodities, fixed income, currencies and equities.

Headquartered in London, ICBC Standard Bank Plc also has operations in Dubai, Hong Kong, Shanghai, Singapore, New York, and Tokyo.

For more information please visit www.icbcstandard.com

Oxford Economics

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Headquartered in Oxford, England, with regional centres in London, New York, and Singapore, Oxford Economics has offices across the globe in Belfast, Chicago, Dubai, Miami, Milan, Paris, Philadelphia, San Francisco, and Washington DC. We employ over 230 full-time people, including more than 150 professional economists, industry experts and business editors—one of the largest teams of macroeconomists and thought leadership specialists. Our global team is highly skilled in a full range of research techniques and thought leadership capabilities, from econometric modelling, scenario framing, and economic impact analysis to market surveys, case studies, expert panels, and web analytics. Underpinning our in-house expertise is a contributor network of over 500 economists, analysts and journalists around the world.

Oxford Economics is a key adviser to corporate, financial and government decision-makers and thought leaders. Our worldwide client base now comprises over 1000 international organisations, including leading multinational companies and financial institutions; key government bodies and trade associations; and top universities, consultancies, and think tanks.

June 2017

All data shown in tables and charts are Oxford Economics' own data, except where otherwise stated and cited in footnotes, and are copyright © Oxford Economics Ltd.

This report is confidential and may not be published or distributed without ICBC Standard Bank's permission.

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

To discuss the report further please contact:

Gary Licht: gary.licht@icbcstandard.com

ICBC Standard Bank Plc

20 Gresham street, London, EC2V 7JE, UK

Tel: +44 203 145 6704

Helena Huang: helena.huang@icbcstandard.com

ICBC Standard Bank Plc

20 Gresham street, London, EC2V 7JE, UK

Tel: +44 203 145 6511

The use of 'we', 'our' throughout this document refers to ICBC Standard Bank and Oxford Economics jointly

Executive Summary

The Chinese government's Belt and Road (B&R) initiative is intended to have a major impact on connectivity and trading relationships across the region.

Dubbed a modern-day Marshall Plan by some commentators, the initiative focuses on the development of improved transport links along ancient trading routes. The levels of investment that have been announced are potentially transformative, naturally creating enormous corporate interest.

The task is mammoth but implementation will be complex: the region is far from monolithic. Economies in the B&R region are very diverse in terms of both the stage of market maturity and financial development reached, and the backdrop provided by the political system or institutional structure. This inevitably creates a challenge for investors interested in exploiting the growth and development opportunities that are likely to spring from the B&R initiative.

Our Economic Health Index is designed to help investors navigate the complexities of the B&R region by establishing a standardised and comprehensive monitoring framework. Given the increasing focus on the region, it provides investors with a timely and invaluable source of intelligence to help inform decisions. The Index synthesises an array of raw data into a single figure that summarises the economic health of each country from the twin perspectives of macroeconomic performance, and economic and political risk.

The UAE tops our inaugural Economic Health Index ranking, very closely followed by China. The UAE's relative strengths include a highly advanced infrastructure, combined with an extremely favourable tax and regulatory environment, and relatively low level of political risk. On the other hand, China's competitive advantages stem from its enviable market size and solid long-term growth prospects, both firmly underpinned by its strong financial and physical infrastructure.

At the other end of the scale, there are no surprises among the Index laggards, which are unified by a history of recently-concluded or ongoing conflict. Syria props up our rankings just behind Yemen, which is also enduring a protracted civil war. These two plus East Timor are distant from the rest of the B&R markets in terms of economic health.

Overall, higher income countries record higher average index scores but the relationship is complex and far from uniform. It is strongest in relation to the structural elements of a country's investment climate—its tax and regulatory regime and the quality of its infrastructure and financial architecture—as well as for political risk. On the other hand, if anything, a negative relationship exists between current, near and long-term growth prospects and per capita GDP, reflecting the fact that less mature economies have greater scope to enjoy the fruits of catch-up growth.

Nevertheless, our index has helped to identify several highly performing markets where the trade-off is less severe. Beyond China and the UAE, these include high-income-but-still-dynamic economies such as Israel, Estonia and Singapore. On the other hand, for more risk-loving investors, Bhutan and Laos are highlighted as markets where high growth has been achieved and could continue but where numerous risk fault lines lie beneath the surface.

Our index tool can be used to provide comparative analysis across different parts of the B&R region. Central and Eastern Europe (CEE) and East Asia emerge with most countries among the highest economic health index scores. CEE

economies combine a hospitable investment climate with very low levels of political risk while economies in East Asia tend to offer relatively dynamic growth prospects. At the other end of the scale, countries in the Middle East and North Africa (MENA) are revealed to be currently struggling reflecting a prolonged period of low oil prices and recent geopolitical tensions that have elevated political risk and damaged growth.

Our index tool uses the most up-to-date data to identify emergent trends. For example, the index highlights that the macroeconomic performance of major Oil and Gas (O&G) producers within the region has been dented. As a group, the average index score of these economies was well below that recorded by countries elsewhere in the B&R, highlighting, for example, how lower oil prices feed into domestic demand, often by enforced fiscal tightening.

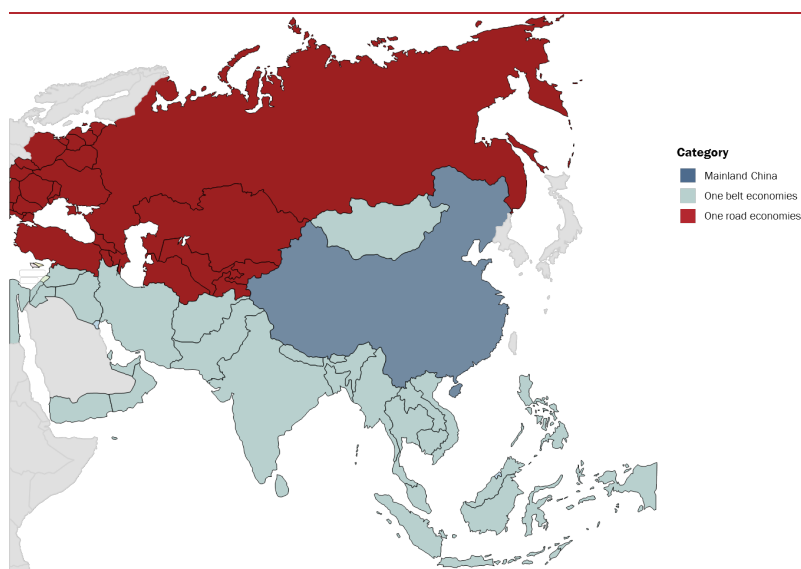
A look back over time reveals that economic health across the B&R countries reached a peak in 2016, at least since 2005. This reflects consistent improvements in the investment climate over the past decade. However, both government indebtedness and external risk are currently at historically elevated levels, with many countries still struggling to deal with the fallout from the global financial crisis. Meanwhile, near-term growth conditions remain much more subdued than in the halcyon period running up to the crisis meaning the overall risk outlook across the region is more mixed

1. Introduction

The Belt & Road (B&R) initiative, first announced in 2013, is designed to transform connectivity and trading relations across countries that together account for just under two-thirds of the world's population and 30 percent of global GDP.¹ Dubbed a modern-day Marshall Plan by some commentators, the initiative is focused on the development of improved transport links along ancient trading routes. The 'Belt' refers to the historic overland Silk Road trading routes that connected China, via central Asia, to Europe and the Middle East. The 'Road' refers to the maritime route to the south, which links China to South-east Asia, India and Africa.

Although the scale of future investments remains uncertain, indications are that the B&R initiative will become a substantive driver of global capital flows going forward. Substantial projects that have been announced include the US \$54 billion development of a land route from the Xinjiang region to a deep-water port in Gwadar, Pakistan and a planned multi-billion dollar 3,000 km high-speed rail line from South-west China to Singapore. Total planned investments already exceed US \$900 billion—greater than the median GDP of a B&R economy in 2016.

Fig. 1. The B&R region



Source: Oxford Economics

With such a disparate group of markets, there is a clear need for a standardised reporting structure. The B&R region is populated by a highly diverse set of economies whether from a perspective of maturity, economic structure, bi-lateral trade composition or political environment. More prosaically, these countries also vary substantively in terms of the quality of data available to help investors monitor economic developments and appropriately gauge the degree of economic, operational and political risk. The B&R Economic Health Index corrects for this disparity by providing users with a standardised framework to compare the investment climate and the degree of economic and political risk across the region and over time.

¹ Based on estimates from Oxford Economics' Global Economic Model (GEM) as of end-2016.

The index provides a snapshot of the relative risk-versus-reward trade-off across the B&R markets. But it also allows investors to reach more nuanced comparative conclusions by exploring sub-layer scores. Its two key dimensions are highly relevant to investors—covering macroeconomic performance and risk. However, the index has been constructed to provide more detailed insight on relative performance across many narrower topics, each relevant to these two core concepts. These include:

- 1 the extent to which evolving global conditions affect export demand across the 65 markets²;
- 2 how the countries match up against each other in terms of long-term growth prospects given the favourability of their demographic profile and their capacity to generate productivity growth;
- 3 which markets, relatively, offer a more conducive operational business environment, for example, characterised by less onerous regulatory regimes, more favourable tax environments and higher quality physical and financial infrastructures;
- 4 the extent to which the nature of economic risk compares across the region, incorporating, for example, the risk of a ‘sudden stop’ in capital inflows and the sustainability of the country’s sovereign position; and
- 5 how different facets of political risk, such as armed conflict or policy stability are an important consideration in each of these countries.

The B&R Economic Health Index has been produced in conjunction with a China Connectivity Index—a tool that can be used to track the strength of economic connectivity between China and each member of the B&R. Over time, the information gathered jointly from these two indices will help investors understand the extent to which better bilateral economic connectivity with China relates to the relative state of economic health across countries in the region.

The remainder of this report is structured as follows:

- Chapter 2 introduces the index conceptually, highlighting the framework used to monitor and measure economic health;
- Chapter 3 describes our headline findings—which countries rank highest and lowest and why;
- Chapter 4 explores the index in more detail, focusing on our two main categories: macroeconomic performance and risk;
- Chapter 5 provides a historical perspective, examining how the economic health of the B&R region has evolved since 2005;
- Chapter 6 concludes; and
- Chapters 7 and 8 are appendices documenting the results in full and providing other background detail.

² There are various definition of the breadth and scope of China’s B&R initiative by different sources. The 65 markets we selected to examine in the Index and in this white paper are the set of countries identified as official B&R countries in a document published by the China International Trade Institute, Industrial Cooperation Between Countries Along the Belt and Road.

2. The Index Measure

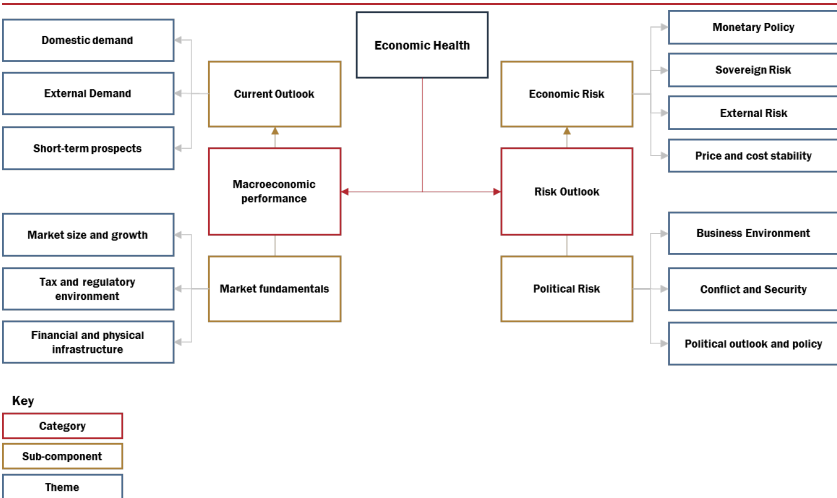
In this chapter, we provide a high-level introduction to our Economic Health Index measure. Our objective is to offer a clear and succinct overview to assist readers in interpreting and understanding the results which are presented later in the report. For more technically minded readers, we have written a separate methodology document which provides a detailed overview of our approach to data collection, standardisation and weighting.

The Economic Health Index framework has been designed to provide an intuitive basis for users to monitor and understand countries' economic health. Our framework follows a step-by-step formula with the concept of economic health broken down into sequentially more granular layers. This design reflects an iterative process between the Oxford Economics and ICBC Standard working groups in an effort to ensure that the topics that are monitored within our measure resonate with investors and other users of the index.

The B&R Economic Health Index is sub-divided into three levels as follows:

- 1 At the broadest level, the index is composed of two major **categories**: macroeconomic performance; and risk outlook. Index scores in these dimensions can be used to develop a high-level understanding of the relative balance between risk and reward prevalent in these economies;
 - 2 Each category is further divided into two **components** which aim to capture key facets of a country's performance with respect to these topics. A country's macroeconomic performance is described in terms of the current outlook for growth and a set of market fundamentals which refer to more structural features that affect the relative desirability of these locations to foreign investors; and
- Finally, each component is disaggregated into a number of **themes** as described in the flow chart below. A country's score in each theme reflects the underlying data collected to measure and compare conditions on the ground. The raw data was standardised (to convert it into a consistent unit of measurement) and then aggregated together—further detail on our approach can be found in an accompanying methodological paper.

Fig. 2. Principle and secondary dimensions of economic connectivity



Source: Oxford Economics

Final index scores are computed on a 0-100 scale based on their performance across each theme compared to the most highly rated country in that class.

Each country's index score is built up from a set of theme scores calculated on the same 0-100 scale. These are then weighted together to provide an overall 'economic health' score for each country. Although, theoretically, a country could achieve a score at either extremity of our range, in practice this is very unlikely to occur. Therefore, each country's overall score in economic health can be interpreted as reflecting how close they were, on average, to being the best- or worst-performer across different facets of the index.

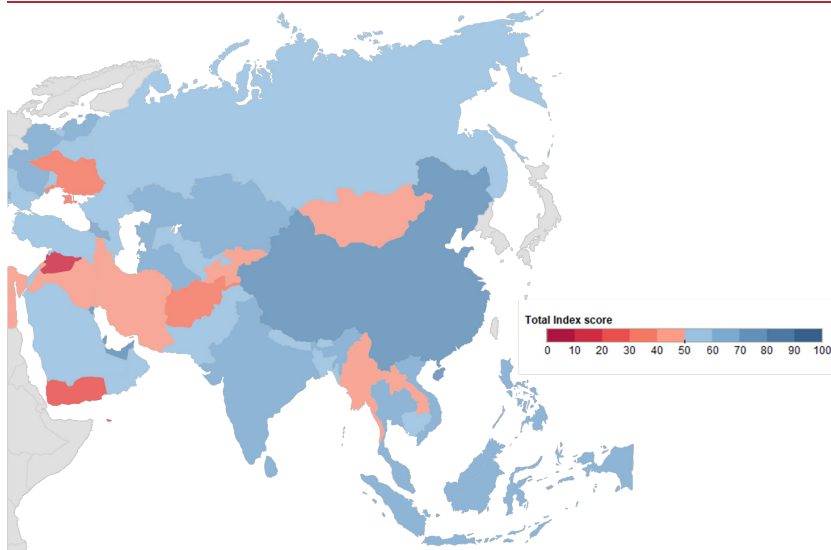
Index scores are computed on a comparative basis and therefore provide an indication of the evolution of a country's relative performance over time.

The scoring system adopted in our framework has a very strong comparative emphasis—for each indicator, a country's score depends not so much on how well they are doing in absolute terms but how they are faring relative to other countries in the B&R region. The implication of this is that, over time, changes in a country's score can be interpreted as a signal that its comparative performance is improving/worsening. For example, near-term growth prospects in a country might improve from one year to the next. However, if this came in the context of a 'rising global tide lifting all boats' period for the global economy, it is possible that their current outlook theme score could fall back, reflecting a deterioration in that country's relative performance.

3. Headline findings

In this chapter, we outline the headline findings from our analysis, describing what our index results imply about the current state of economic health of countries across the B&R region.

Fig. 3. Economic health in the B&R in summary



Source: Oxford Economics

The UAE emerges on top of our inaugural B&R economic health index ranking, very closely followed by China. According to our index the UAE currently leads the way in the B&R region in terms of economic health, with a narrow lead over China. The UAE economy benefits from a highly advanced infrastructure, combined with an extremely favourable tax and regulatory environment and relatively low levels of political risk. Its economic health score of 71.6 is 17.3 points (just over 30 percent) higher than the B&R average index score. On the other hand, China's relative strengths include its enviable market size and long-term growth prospects and strong underpinnings from its financial and physical infrastructure.

Elsewhere, the upper echelons of the index is dominated by much smaller markets which tend to combine very stable political climates with a favourable investment climate. Examples of this type of market in the top 10 include Singapore, Estonia, Qatar, the Czech Republic and the UAE³. Elsewhere, Vietnam is the only other relatively large economy (in terms of population) to make the top 10 helped by relatively buoyant short and long-term growth prospects. In the near-term the economy has benefited from recent strong inflows of FDI and an improving external outlook, whilst further out the country retains a favourable demographic profile and retains significant scope for catch-up growth.

³ The data collected as part of this process was analysed and processed in May 2017. Therefore, geopolitical developments since that point—for example, the diplomatic crisis in the Gulf that has surrounded Qatar are not factored into our scoring.

Fig. 4 The Stars: Top 10 countries in the economic health index

B&R top 10 countries		
Country	Economic health score	Difference vs average
United Arab Emirates	71.6	17.3
China	71.4	17.2
Estonia	69.3	15.0
Qatar	68.6	14.3
Israel	67.5	13.3
Turkmenistan	67.4	13.1
Singapore	66.8	12.6
Malaysia	66.8	12.5
Czech Republic	65.3	11.1
Vietnam	64.6	10.4

Source: Oxford Economics

At the other end of the scale, ongoing conflict in Syria and Yemen has contributed to dismal index readings.

Syria props up our current rankings, with the ongoing civil war having prompted a prolonged and deep recession and worsened an already relatively inhospitable investment climate. Economic risk is also highly elevated with the economy currently running enormous current account and fiscal deficits. With an index score of 15.1, Syria is fully 39.2 points (or 72 percent) below the B&R average. A similar story applies to Yemen where the ongoing civil war has had a ruinous impact on the economy as well as resulting in a very poor performance in terms of political risk.

Conflict or post-conflict is also a generally consistent theme across most of the rest of the countries that make up the laggards in our index. Many of the rest of the markets that occupy a position in the bottom 10 places of our index ranking are also currently or have recently come out of some form of civil unrest or geopolitical conflict. The only real exceptions to this trend are Tajikistan and the Kyrgyz Republic, which are both characterised by a consistent below-average performance across most index themes.

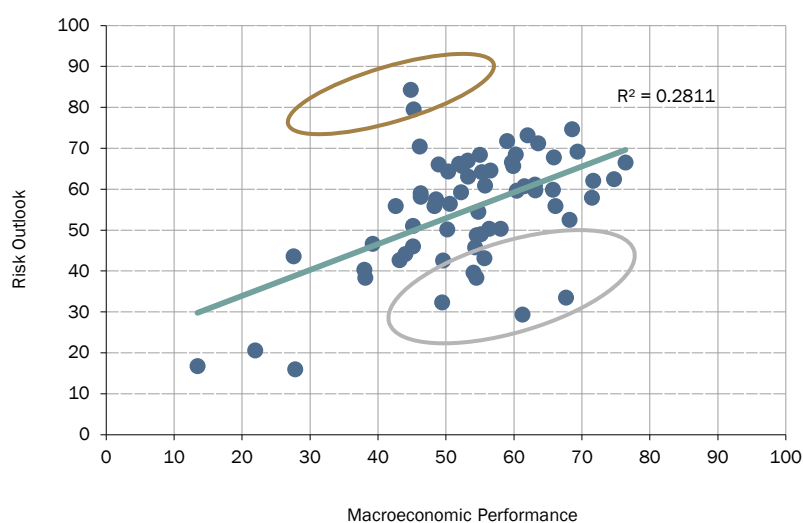
Fig. 5 Bottom 10 countries in the economic health index

B&R bottom 10 countries		
Country	Economic health score	Difference vs average
Kyrgyz Republic	44.0	-10.2
Palestine	42.9	-11.4
Iraq	42.9	-11.4
Egypt, Arab Rep.	40.8	-13.4
Tajikistan	39.1	-15.2
Ukraine	38.2	-16.0
Afghanistan	35.6	-18.7
East Timor	21.8	-32.4
Yemen, Rep.	21.2	-33.1
Syrian Arab Republic	15.1	-39.2

Source: Oxford Economics

Drilling down further, there is a reasonably strong positive association between macroeconomic performance and the risk outlook, although the relationship is far from uniform. Mapping each country's macroeconomic performance score against their risk outlook score (Fig. 6) suggests a positive relationship exists between the two. Intuitively there are several reasons why the two concepts are likely to be mutually reinforcing—a strong and stable political and investment climate can underpin faster economic growth which in turn should help to lessen levels of economic risk. However, as shown in the chart there are certainly examples of countries where a lacklustre macroeconomic performance is offset by relatively low levels of risk (circled in **gold**) or countries where a solid macroeconomic performance is counterbalanced by an above-average level of risk (circled in **grey**).

Fig. 6. Relationship between risk outlook and macroeconomic performance scores across B&R



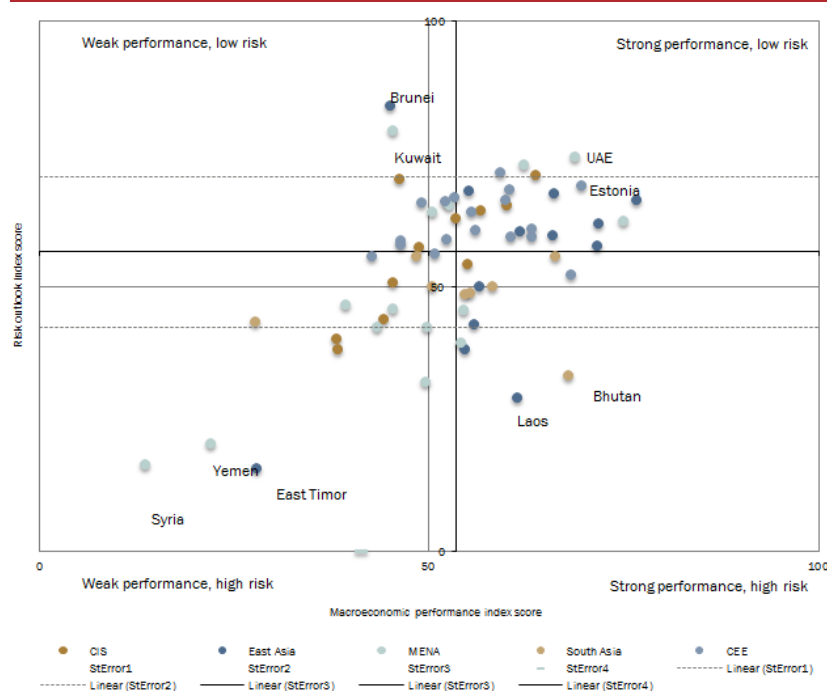
Source: Oxford Economics

Our index results suggest that there is a greater concentration of genuine laggard markets (characterised by relatively weak performance and high risk) than real leaders (characterised by relatively strong performance and low risk). The chart below plots the 65 B&R economies according to their overall macroeconomic performance and risk outlook scores. The four quadrants created in the chart can be used to categorize countries as relatively strong or weak performers. One feature that is notable is the handful of significant laggard markets (Syria, Yemen, East Timor). Here, macroeconomic performance is significantly weaker than average and the level of risk significantly higher than average to a much greater degree than countries that stand out as leaders from our index measure.

The UAE emerges as the market which best combines a strong macroeconomic performance with low risk. The UAE was the only country whose macroeconomic performance and risk outlook scores were over one standard deviation higher than the average (although Estonia was very close).

Meanwhile for investors with a greater tolerance for risk, Laos and Bhutan emerged as markets which might offer relatively high returns at the expense of higher risk. Bhutan is a country that has and is expected to continue to enjoy relatively rapid growth, particularly in the near-term. Real GDP has expanded by an average rate of 7.5 percent over the last decade and the near-term outlook for growth is highly favourable helped by substantial foreign investment in the hydropower sector. However, our index measure reveals several fault lines below the surface of this impressive headline performance. Both sovereign and external risk are currently substantially elevated relative to the rest of the B&R region with the country currently running an enormous current account deficit and sovereign debt amounting to over 100 percent of GDP. A similar story emerges in Laos. Real GDP growth is projected to grow very strongly in the short- and long-term led by buoyant consumer spending, continuing recent trends. However, despite a recent history of strong growth the risk outlook remains elevated. Laos continues to run a substantial current account deficit which could be a source of vulnerability should global capital flows tighten. Meanwhile, the business environment in Laos lags well behind the curve in the B&R region, with investors less secure in terms of fundamentals such as property rights and contract enforcement.⁴

Fig. 7. Country categorization of B&R countries by macroeconomic performance and risk outlook



Source: Oxford Economics

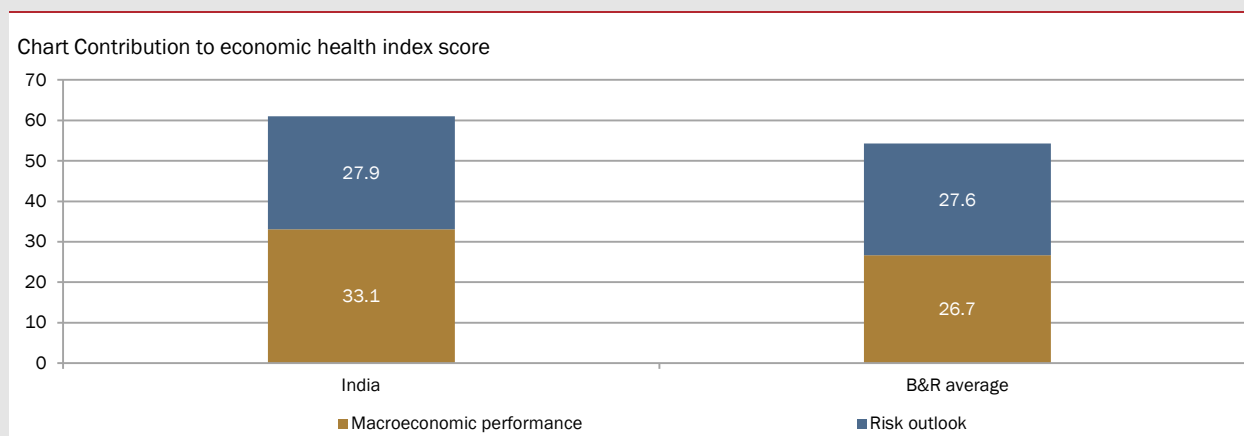
⁴ The two main axes are set at the average (mean) for all countries so dots which are either to the right of the main vertical line or above the main horizontal line are above-average performers. The dotted lines correspond to scores which are one standard deviation (higher and lower) from the mean score. Countries which lie outside of this band on either side can be perceived to be significantly under- or over-achieving in this context.

How to read our index – India a case study

As the second most populous country in the B&R and a GDP in excess of US \$2 trillion India is naturally of keen interest to investors. Our economic health index can be used to benchmark the Indian market against economies elsewhere in the B&R in terms of risk vs reward.

Overall, India's economic health is judged to be just above average in the context of the B&R region. Its overall index score of 61.0 is sufficient to gain a ranking of 21st in the B&R region, just inside the top 1/3 of countries. Breaking this down, India scores relatively highly in the macroeconomic performance category of the index (9th) but the risk outlook is currently average by the standards of the B&R.

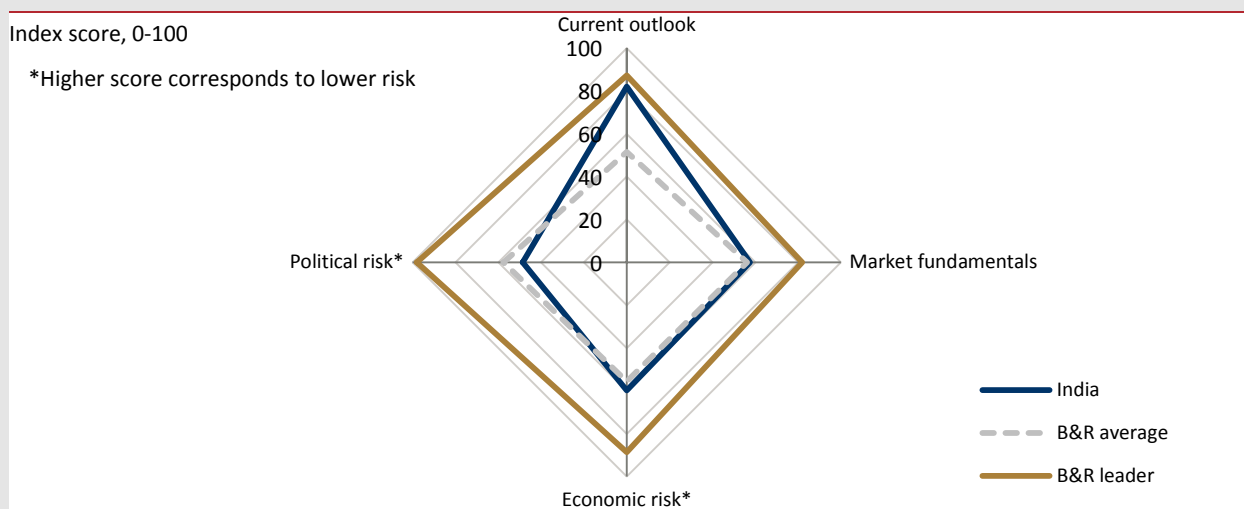
Fig. 8. India's economic health index performance in context



Our index allows the user to explore these topics in greater detail by examining underlying component and even theme scores. In terms of the current outlook for growth, India is virtually unsurpassed in the B&R region (2nd) but its performance in terms of fundamentals is less impressive, with the tax and regulatory environment judged to be a particular source of competitive disadvantage.

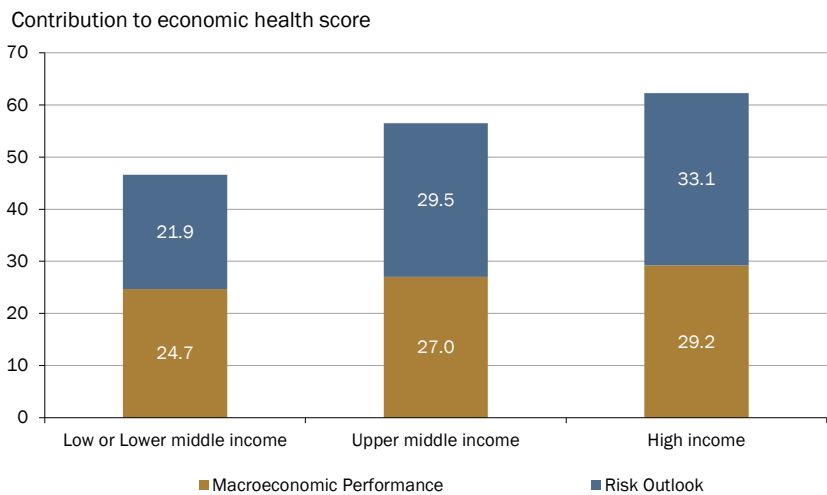
In terms of the risk outlook, India achieves a relatively more favourable score in our measure of economic risk with the country having benefited from the more disciplined approach to monetary policy instilled by ex-Governor Raghuram Rajan. However, the country remains well behind the curve in terms of political risk with a relatively unfavourable record in investor protection and a problematic security environment.

Fig. 9. India economic health performance by sub component



In general, countries with a higher average income achieve higher index scores, a trend that was consistent in terms of both macroeconomic performance and risk outlook. Although the trend is not uniform, there is a reasonably strong broad association between a country's GDP per capita and its economic health index score. Grouping the countries by income band according to the World Bank's latest classifications, a clear upward relationship emerges between the average scores of countries across each income band. The pattern does not alter significantly between our two major sub-categories—higher income economies tend to have higher scores for both macroeconomic performance and a more positive risk outlook.

Fig. 10. Average economic health scores by country income classification

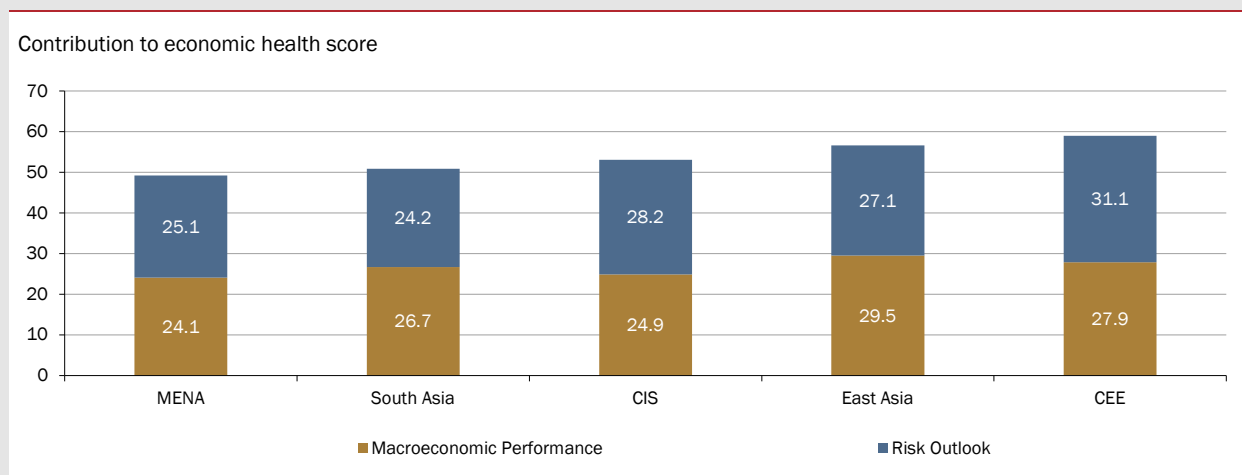


Source: Oxford Economics

Economic Health – The regional outlook across the B&R

Central and Eastern Europe (CEE) currently enjoys the highest average economic health score across the B&R regions, with the Middle East and North Africa (MENA) region B&R bringing up the rear. The average economic health score in the CEE region is currently 59.1, 8.8 percent higher than the B&R average. CEE's most pronounced competitive advantage stems from its relatively low risk outlook—countries in the region earned a risk outlook score of 62.3 well above the B&R average of 55.1—with a significantly slenderer advantage registered in the macroeconomic performance category of the index. In contrast, the MENA region is currently the laggard of the B&R, with a similarly underwhelming average score recorded in both the macroeconomic performance and risk outlooks sections of the index. Contributing factors include persistent conflict which has elevated political risk and diminished growth prospects and the recent period of low oil prices which has led to a sharp deterioration in external and fiscal balances and dimmed growth prospects.

Fig. 11. Economic health across the B&R region

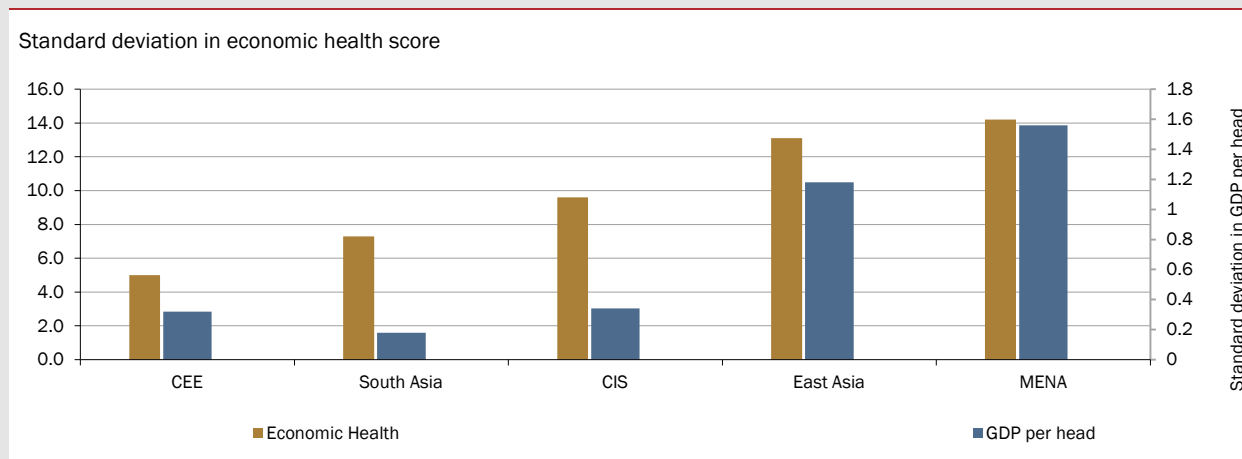


Source: Oxford Economics

The B&R regions are also noticeably differentiated by the degree of variation in economic health across countries.

Therefore, whilst individual country performance can be reasonably proxied by the CEE average score, this is certainly not the case in MENA or East Asia, which are home to economies at both ends of the spectrum of economic health. The within-region variation in economic health scores is well explained by the variation in income levels within the five regions. Whereas, CEE and South Asia are home to a relatively homogeneous set of countries in terms of GDP per capita, both East Asia and MENA are marked by much wider disparities. This, in turn, has translated into significant variation in the quality of the investment climate and levels of economic and political risk.

Fig. 12. Variation in economic health scores within the B&R regions



Source: Oxford Economics

4. Exploring our Index in more depth

In this chapter we delve deeper into the index, outlining and explaining the current relative performance of countries in the B&R in this context. We begin by exploring the macroeconomic performance category before moving on to reviewing results from our risk outlook scores.

4.1 Macroeconomic performance

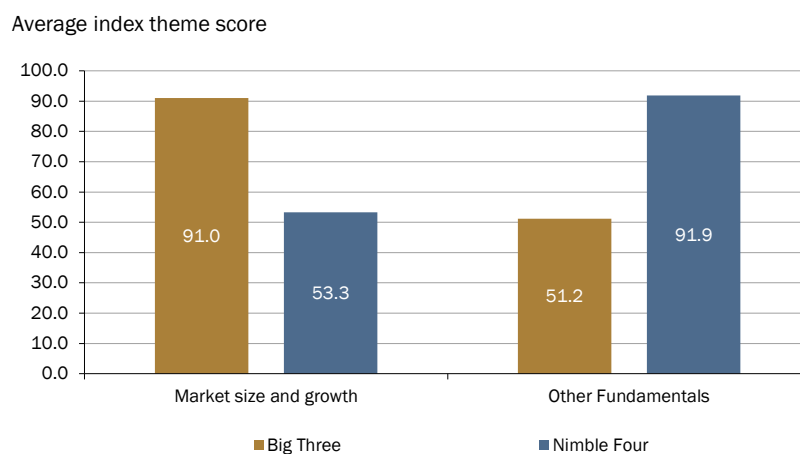
China is currently the leading performer across the B&R region in terms of macroeconomic performance. As a market, China is able to combine a huge domestic customer base with strong growth prospects and a sound business environment, particularly as measured by the quality of its business infrastructure. China's score of 76.4 for macroeconomic performance is 23 points (over 40 percent) higher than average.

Fig. 13 The Stars: Top 10 countries in the B&R by macroeconomic performance

B&R top 10 countries		
Country	Macroeconomic performance score	Difference vs average
China	76.4	23.0
Qatar	74.7	21.3
Singapore	71.7	18.3
Vietnam	71.5	18.0
Estonia	69.4	15.9
United Arab Emirates	68.6	15.1
Georgia	68.2	14.7
Bhutan	67.7	14.2
India	66.1	12.7
Malaysia	65.9	12.4

Source: Oxford Economics

The leading macro performers in the B&R tend to fall into two categories—very large emerging markets with strong growth prospects and smaller markets whose competitive advantage lies in the quality of its investment climate. China, India and Vietnam (“Big 3”) are all good examples of the former while Qatar, Singapore, Estonia and the UAE (“Nimble 4”) all represent the latter. These four recorded the highest scores in the B&R for other fundamentals but were less impressive relatively in terms of their market size and growth prospects. Fig. 14 bears this out showcasing the very strong performance of these ‘big three’ economies in terms of market size and growth which is offset by the very high scores enjoyed by these other ‘nimble four’ markets in other fundamentals, associated with institutional aspects of a country’s investment climate.

Fig. 14. Average market fundamentals performance by theme – selected economies

Source: Oxford Economics

There is a very high correlation between the bottom 10 countries in terms of macroeconomic performance and overall economic health—nine of the ten countries populate both lists. The only exception is Egypt which achieved a macroeconomic performance ranking of 45, escaping from the bottom 10. Its place is taken by Bosnia and Herzegovina, which suffers from very weak market fundamentals.

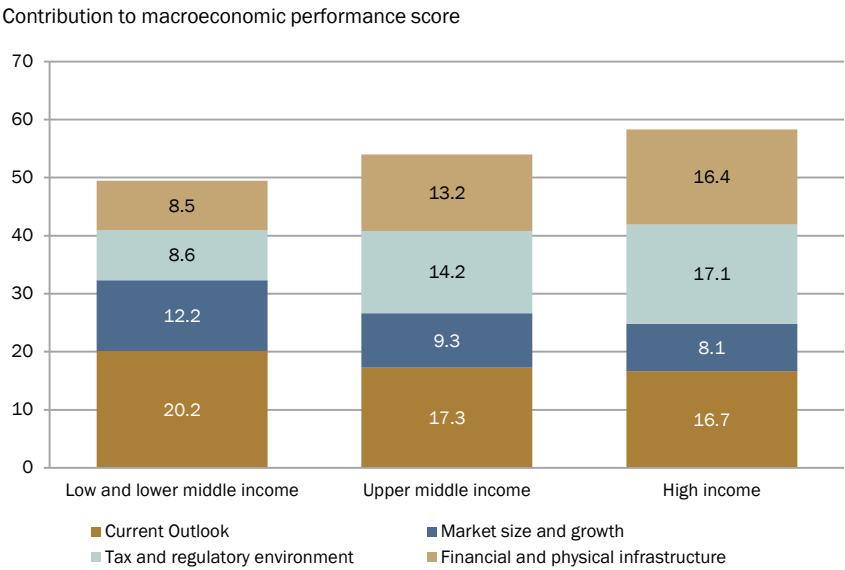
Fig. 15 Bottom 10 countries by macroeconomic performance index score

B&R bottom 10 countries		
Country	Macroeconomic performance score	Difference vs average
Kyrgyz Republic	44.0	-9.4
Palestine	43.2	-10.2
Bosnia and Herzegovina	42.6	-10.8
Iraq	39.2	-14.2
Ukraine	38.1	-15.3
Tajikistan	38.0	-15.4
East Timor	27.8	-25.6
Afghanistan	27.6	-25.8
Yemen, Rep.	21.9	-31.5
Syrian Arab Republic	13.4	-40.0

Source: Oxford Economics

A positive association does exist between income and macroeconomic performance although this is far from uniform across different themes. Fig. 16 breaks down the contribution of each index theme to the average macroeconomic performance score of countries in the B&R grouped by income band. This reveals that the relationship between income and themes associated with growth prospects is, if anything, negative. This is not necessarily unsurprising—lower income per capita indicates a greater capacity for catch-up growth. However, non-growth related themes in macroeconomic performance are very strongly positively correlated with income, and sufficient to generate the overall upward trend visible in the chart.

Fig. 16. Average macroeconomic performance scores by country income classification



Source: Oxford Economics

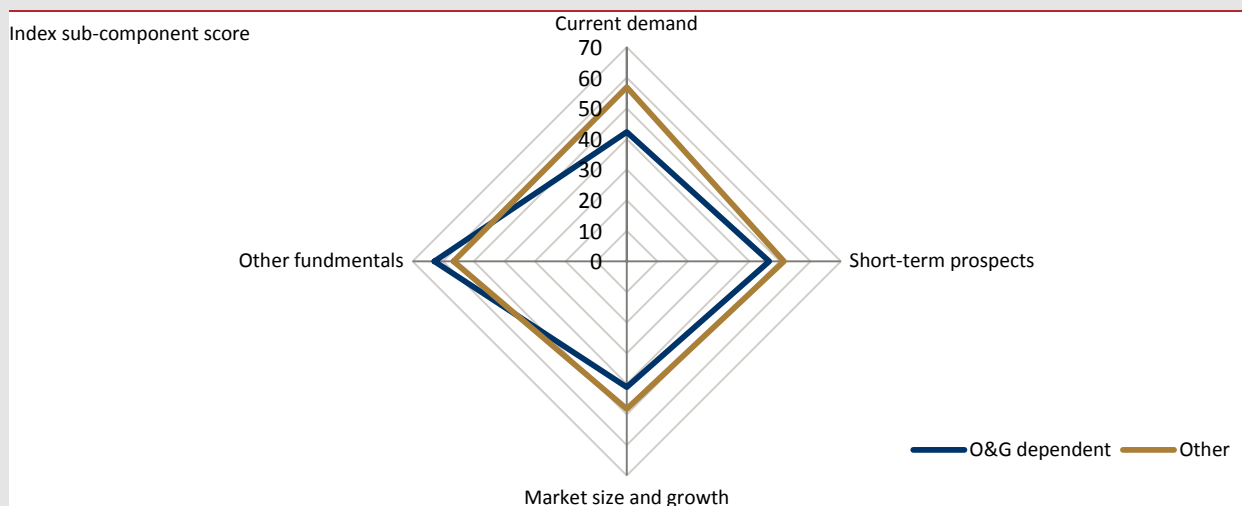
Macroeconomic performance – Oil & gas producers in the B&R

One of the most notable recent trends in the global economy has been the sustained downturn in oil and gas prices. Having averaged close to US \$100 per barrel in 2014, crude oil prices fell back sharply around the turn of 2014/15 and have averaged around half that mark for the past two years. This has been a boon to large net importers given the resulting decline in their import bill but put a severe squeeze on producer countries that rely on associated export revenues to support domestic demand.

The fallout from this process can be gauged through our index tool. Overall, the average macroeconomic performance score of countries dependent on Oil and Gas (O&G) exports⁵ is little different – 51.7 vs 53.9. However, this disguises a more nuanced pattern within the sub-category score.

The most notable difference between the two sets of countries can be found in terms of themes related to current demand—here O&G dependent markets recorded an average score of 42.3 compared to 56.9 in the rest of the B&R. The depletion of export revenues in these markets has, in some cases, resulted in a tremendous fiscal squeeze which in turn has crimped demand. O&G dependent economies vs the rest of B&R: macroeconomic performance

Fig. 17. Breakdown of macroeconomic performance of O&G dependent economies vs the rest



Source: Oxford Economics

Our own baseline forecast for oil prices is that they will stay 'low for longer' with only a very gradual rebound back to around US \$60 per barrel by end-2019. As such, short-term prospects are also found to be, on balance, weaker although the gap here is much less stark (compared to current demand) with much of the heavy lifting in terms of fiscal consolidation expected to be completed this year.

⁵For the purpose of this analysis, these countries were classified as those where oil (either crude or refined) or gas export revenues accounted for at least 10 percent of GDP on average between 2011 – 2015.

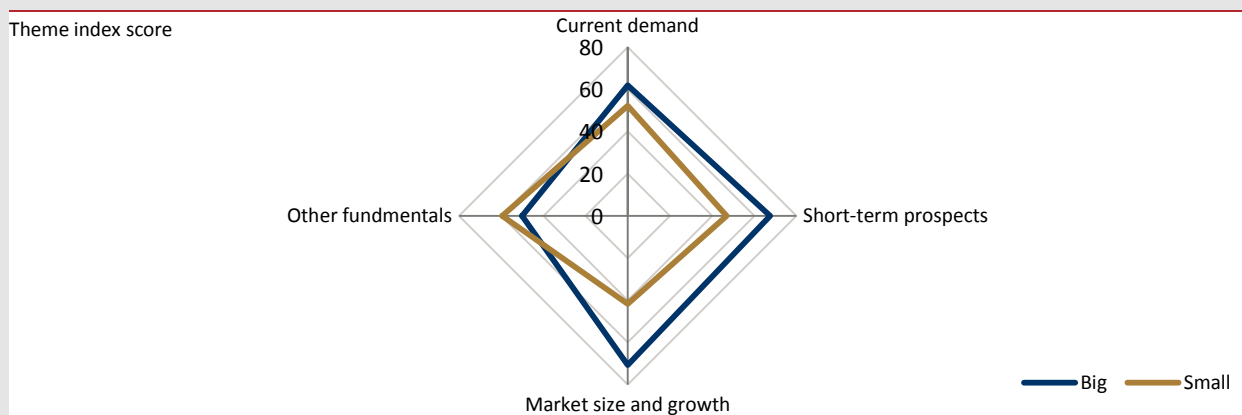
Macroeconomic performance – Does size matter?

The B&R region is far from a monolith and one key aspect of variation that exists across the 65 markets is size. Home to, by a distance, the world's two most populous economies, the B&R also encompasses four countries with less than a million people.

In reviewing whether size matters, we have categorised the B&R countries as either 'big' or 'small' using a population threshold criterion of 75 million, which is close to twice the average of a B&R country. These more populous economies' macroeconomic performance comfortably outstrips the rest of the region with an average score of 59.7 compared to 52.2 for the 'small' countries.

Breaking this out, there are currently three major areas of competitive advantage. Most intuitively, these countries are well ahead of the curve in terms of market size and long-term growth prospects. The former is a direct function of population whereas these countries' massive domestic consumer markets are often a magnet to foreign investors and helps domestic firms achieve efficiency economies of scale, both of which support productivity growth. Short-term growth prospects are also currently well above average

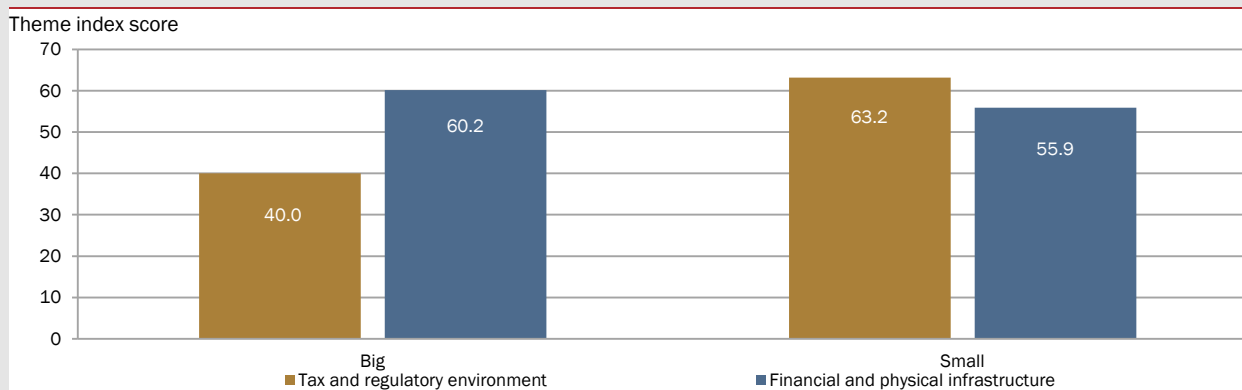
Fig. 18. Macroeconomic performance by theme across B&R regions



Source: Oxford Economics

However, these larger economies do lag behind their smaller peers in terms of other fundamental features of their investment climate. The difference overall is significant—on average, these larger economies recorded a score of 50.1 across these themes compared to 59.6 elsewhere. However, when this is broken down further it is noticeable this underperformance stems very strongly from the less business-friendly tax and regulatory systems that pervade these markets. This speaks to one of the potential disadvantages of size—that it makes it harder to run and manage an efficient bureaucracy—whilst the natural attraction provided by their size often means these markets are less willing to implement a pro-business tax regime in order to attract inward FDI.

Fig. 19. Average fundamental theme score: big vs small B&R economies



Source: Oxford Economics

4.2 The risk outlook for countries in the B&R

Brunei stands out currently as the country in the B&R with the most favourable risk outlook. Its performance was especially impressive in the economic risk component, where it currently combines a low and stable inflationary environment with minimal debt. However, the country's reliance on oil and gas as a source of export revenues does hint at this position potentially eroding unless commodity prices rebound in the medium term.

Despite a prolonged spell of low oil prices, it is notable that a number of the top 10 countries for our risk outlook score are major oil producers including Kuwait, the UAE and Russia. Careful management of these resources has helped to ensure very low levels of indebtedness and whilst the 'flow' side of these countries' risk scorecard has been badly damaged by the path of oil prices over the past three years, they typically remain relative, but more modest, outperformers in terms of sovereign and external risk.

Fig. 20 The Stars: Top 10 countries in the B&R by risk outlook

B&R top 10 countries		
Country	Risk outlook score	Difference vs average
Brunei	84.2	29.1
Kuwait	79.5	24.3
United Arab Emirates	74.6	19.4
Israel	73.1	18.0
Czech Republic	71.7	16.6
Turkmenistan	71.1	16.0
Russian Federation	70.4	15.3
Estonia	69.1	14.0
Macedonia, FYR	68.4	13.3
Thailand	68.3	13.2

Source: Oxford Economics

There is again a very high correlation between the bottom 10 countries in terms of the risk outlook and overall economic health—seven of the ten countries populate both lists. The exceptions are Jordan, Mongolia and Bhutan. Again, the existence of ongoing or recently completed conflict is highly influential in determining the laggards in this category of the index. Moreover, it is also again evident that there is negative skew in the distribution of scores—the risk scores recorded by countries at the bottom of the rankings are significantly further from the average compared to those at the top of the pile.

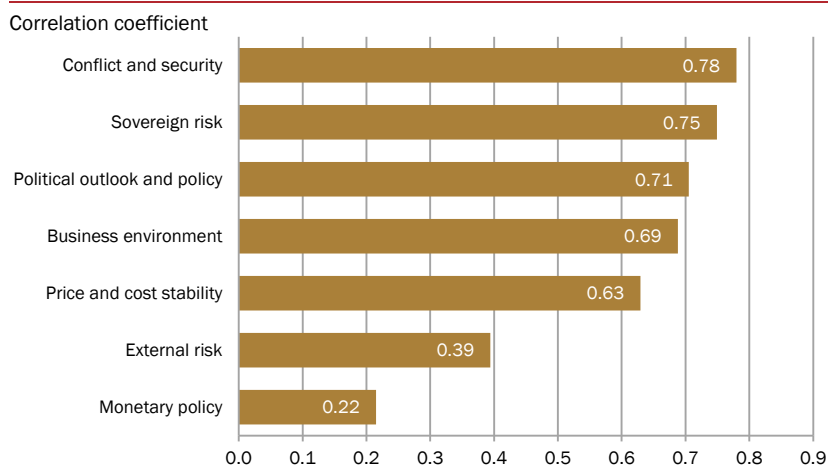
Fig. 21 Bottom 10 countries by macroeconomic performance index score

B&R top 10 countries		
Country	Risk outlook score	Difference vs average
Tajikistan	40.2	-14.9
Jordan	39.5	-15.6
Mongolia	38.3	-16.8
Ukraine	38.3	-16.8
Bhutan	33.4	-21.7
Egypt, Arab Rep.	32.3	-22.8
Lao PDR	29.3	-25.9
Yemen, Rep.	20.5	-34.6
Syrian Arab Republic	16.7	-38.4
East Timor	15.9	-39.2

Source: Oxford Economics

Looking across index themes a reasonably consistent pattern emerges in terms of the relative performance of the 65 economies with the exception of monetary policy. The chart below shows the correlation coefficient between country scores in the overall risk category and each underlying theme. A value close to one is a signal that a very strong association exists between the two sets of numbers (so when one is high the other is high and vice versa) whereas a value close to zero indicates that there is very little common pattern. This likely reflects the fact that the other index themes are more structural whereas the current state of monetary policy is more cyclical.

Fig. 22. Association between overall risk score and each index theme⁶

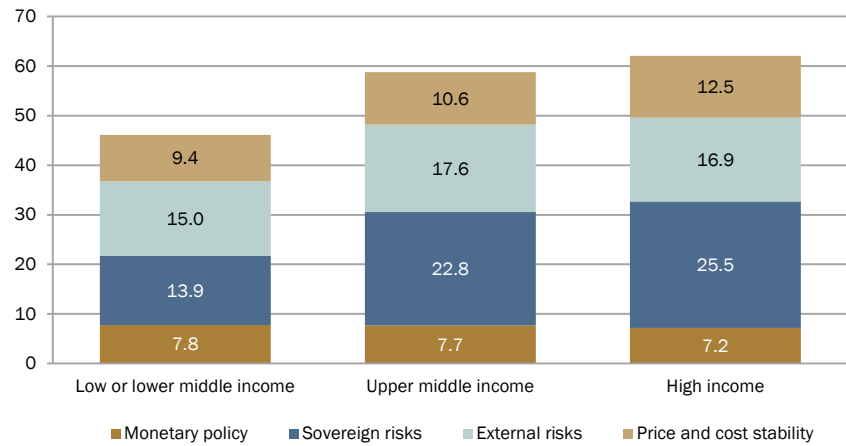


The positive association between income and economic risk performance is driven by a lower risk of sovereign default and greater price stability with little pattern evident across other themes. The chart below breaks down the average economic risk score of B&R economies grouped by income band documenting the contribution of each theme. A clear positive relationship exists between a country's income band and the average score recorded in our sovereign risk and price and cost stability theme. However, very little pattern is evident in terms of monetary policy or external risk. In the case of the former, this seems intuitive—it would be surprising to see a structural relationship between per capita GDP and the state of monetary policy. In the case of the latter, it is partly a reflection of the fact that richer countries are more able to borrow externally.

⁶ These coefficients were calculated using a hypothetical model where each of the seven components of risk was given an equal weight. This removes the distortion created by the variation in the contribution of each component to the risk outlook score.

Fig. 23. Breakdown of average economic risk score by country income classification

Contribution to economic risk score

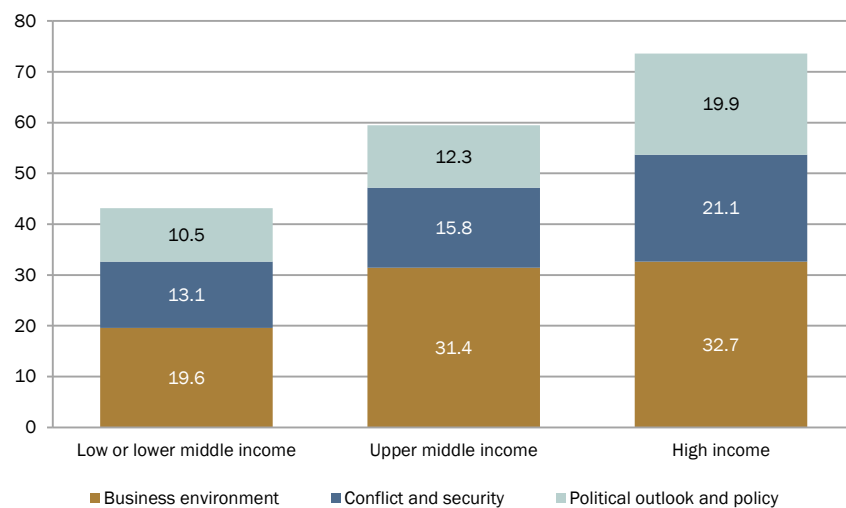


Source: Oxford Economics

On the other hand, the relationship between income and political risk is much stronger and unambiguous. As shown below, there is a very strong positive association between a country's income band and its political risk component score. This holds across all three of our political risk themes and represents a key competitive advantage for these markets against their often faster growing but less affluent counterparts in the B&R.

Fig. 24. Breakdown of average political risk score by country income classification

Contribution to political risk score



Source: Oxford Economics

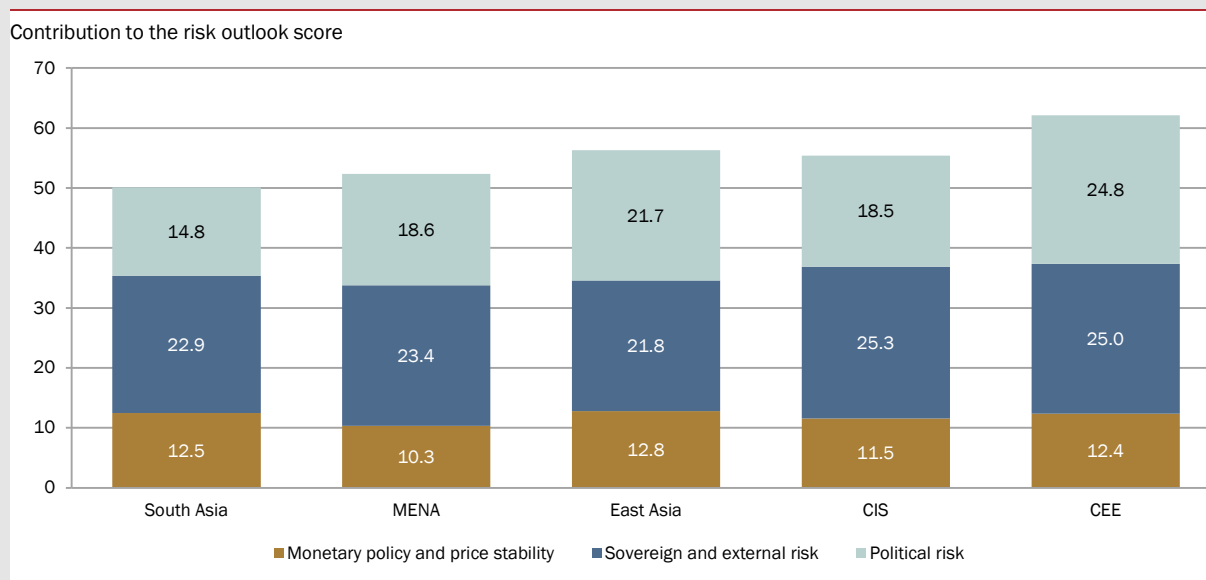
Risk outlook – The regional outlook across the B&R

The CEE region emerges as a clear leader in terms of the risk outlook, with an average risk score of 62.3, around six points clear of its nearest regional challenger—the Commonwealth of Independent States (CIS). CEE's advantage is centred in our political risk measures, with many of these markets characterised by a strong adherence to a democratic and transparent institutional structure. The region is also relatively free from conflict in comparison to the rest of the B&R.

On the other hand, South Asia is currently the regional laggard in risk. This is largely driven by its underperformance in political risk with its economic risk score much closer to the B&R average. The average score of South Asian economies in economic risk themes is much closer to the rest of the B&R.

In terms of sovereign risk, our index scores suggest a very high degree of regional variation, with higher average scores (lower risk) evident across CEE and East Asia. On the other hand, sovereign risk appears particularly elevated in South Asia but also in MENA where many governments have recently loosened fiscal policy to support growth.

Fig. 25. Risk outlook by theme across B&R regions



Source: Oxford Economics

The business environment in the spotlight across the B&R

For any investor, the reliability of the business climate and the risk of appropriation are integral concerns when weighing up a foreign investment decision. Our business environment theme helps you to gauge B&R economies against each other in this respect. It brings together information about the strength of investor protection, the reliability of contract enforcement and resolving insolvency issues to provide a single catch-all measure that can be used for comparative analysis.

Singapore is the highest ranked country in the B&R in terms of its business environment. The country's strong adherence to the rule of law and the transparency of its institutions have long underpinned one of the most successful development stories of the past 50 years. Perhaps more surprisingly Kazakhstan ranks second in the B&R, consistent with the current administration's long-term plan to improve the business environment to OECD standard. At the other end of the scale, Afghanistan remains an extremely problematic climate for investors

Fig. 26 Rankings summary for business environment theme

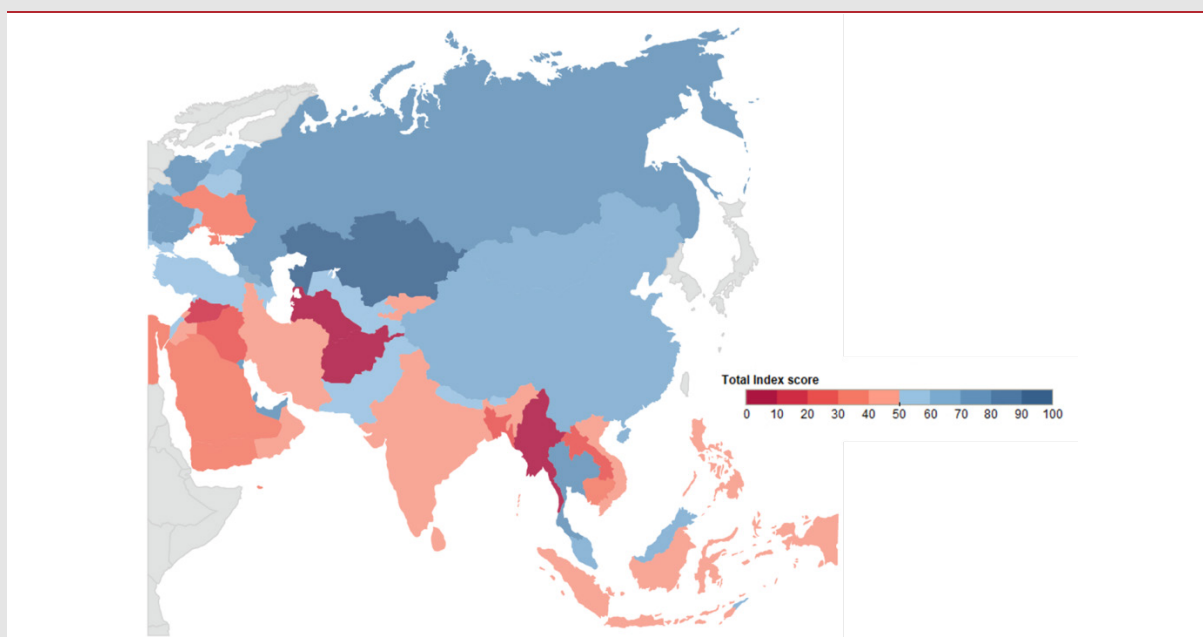
B&R top 5 countries		
Country	Business environment ranking	Political risk ranking
Singapore	1	1
Kazakhstan	2	14
Macedonia, FYR	3	18
Malaysia	4	4
Slovenia	5	3

Source: Oxford Economics

B&R bottom 5 countries		
Country	Business environment ranking	Political risk ranking
Lao PDR	61	58
Palestine	62	62
Myanmar	63	61
East Timor	64	64
Afghanistan	65	65

Source: Oxford Economics

Fig. 27. Overview of the quality of the business environment across the B&R



Source: Oxford Economics

5. How has this picture evolved since 2005?

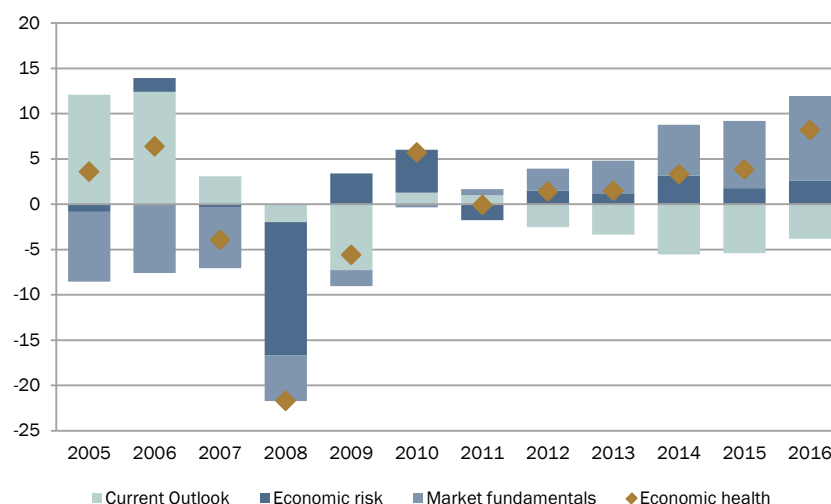
The previous chapter reviewed the current state of play in the B&R region, focusing on the insights provided by the index. In this chapter, we will contextualise this picture by assessing how current conditions compare to recent history. Whilst our focus in chapter three was on drawing out insights at the country-level, here we focus more on the region in aggregate, drilling down occasionally to the experiences of individual regions or other groups of economies.

Although we have made every effort to be as consistent as possible with the framework used to calculate the current index scores, the lack of available time series data has in some cases forced us to exclude certain underlying indicators from these calculations. This was particularly the case for data relevant to political risk and, as such, we have not included this component in the index as part of our time series analysis.

In 2016, economic health in the B&R region reached its highest point in a decade. As shown in Fig. 28, progress has been far from uniform with a noticeable dip coinciding with the Global Financial Crisis (GFC), followed by a period of relative stagnation before a more recent pick-up since 2014. This latter period has introduced a 'new normal' set of economic conditions, characterised by much lower commodity prices and a solid but unspectacular rate of global growth.

Fig. 28. Component contribution to economic health in the B&R region, 2005-2016

Long-term average = zero



Source: Oxford Economics

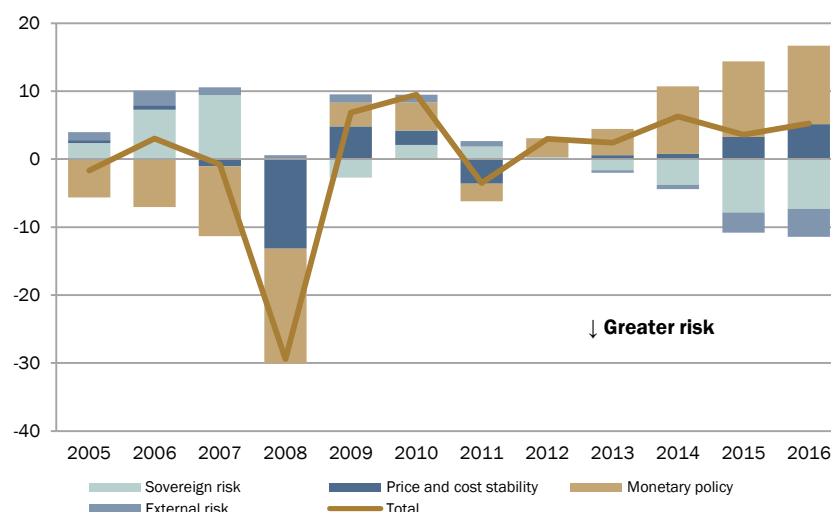
Economic health across the region has benefited strongly from a continued improvement in fundamentals, but compared to the pre-crisis period near-term growth prospects remain weak and economic risk elevated. Decomposing the relative change in the index across categories is revealing. In terms of market fundamentals, the region has enjoyed very solid progress over the past decade. As geography, the B&R is dominated by emerging markets which have, in the main, made significant progress in developing the underlining quality of their financial and physical infrastructure and made continued efforts to reform and develop the business environment. However, our index time series clearly illustrates that the

current and near-term outlook remains subdued relative to the buoyant conditions of the pre-crisis era. Moreover, on balance, levels of economic risk remain relatively elevated compared to pre-2008 although, as we will explore later, a much more nuanced picture emerges across the different themes of economic risk.

With the exception of a very noticeable rise in economic risk associated with the GFC, there has been little overall trend across the B&R region over the past decade. The chart below breaks down the contribution of the three constituent components of economic risk measured as part of this exercise. Given the relative size of the bars, it is apparent that the annual movements have been heavily influenced by movements in the price and cost stability and monetary policy theme scores. On the other hand, both sovereign and external risk theme scores tend to be more stable over time, reflecting their greater reliance on stock type variables. However, in the case of both sovereign and external risk it is noticeable that our index score in 2016 fell to its lowest level on historic record.

Fig. 29. Economic risk in B&R region, 2005-2016⁷

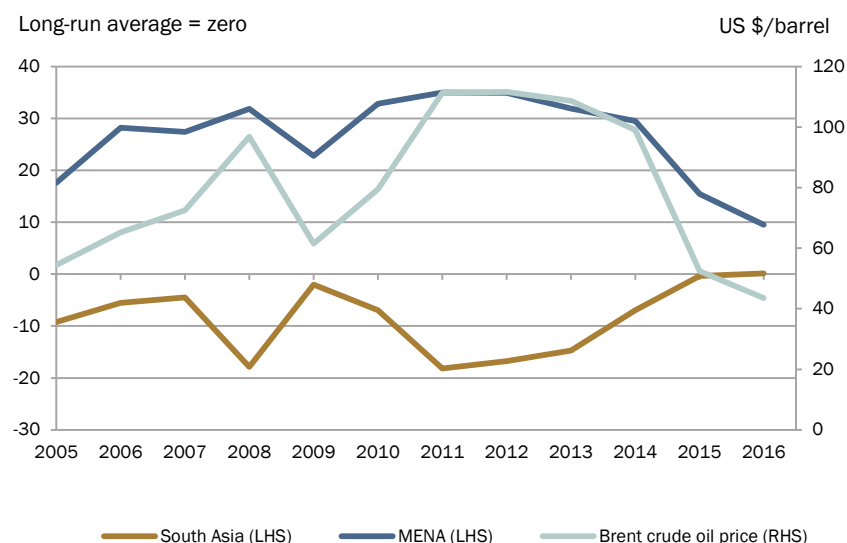
Long term average = zero



Source: Oxford Economics

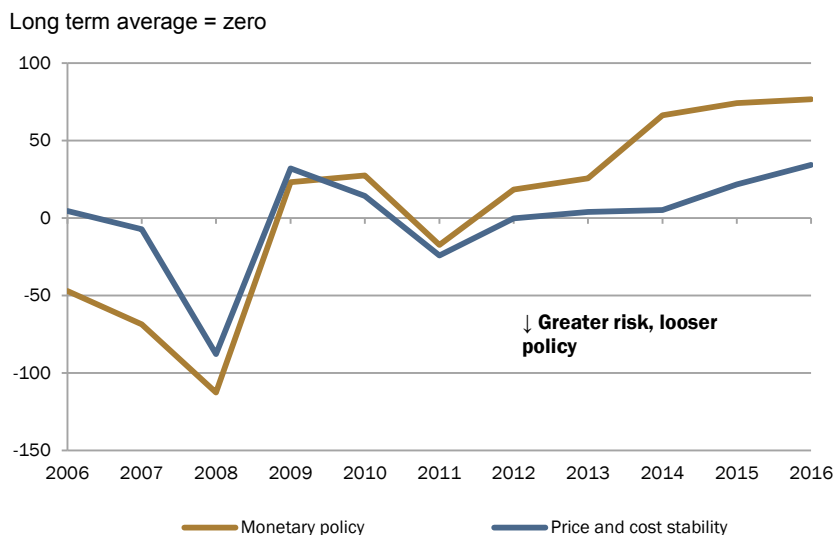
The evolution of external risk across different regions of the B&R is highly tied to the commodity price cycle. For countries that are either significant net exporters or net importers of energy, shifts in commodity prices are keenly associated with several of the core metrics used to monitor external risk. This can be illustrated by comparing the evolution of external risk scores in South Asia (a region concentrated by net importers of oil) and MENA (a region concentrated by net exporters of oil). In the former, external risk tends to be elevated during periods when oil prices are high such as 2008 or 2011-2013, whereas the recent sharp decline in oil prices has coincided with a sharp improvement in South Asia's external risk score. Meanwhile, quite the opposite pattern is apparent in the MENA region. Here, high oil prices helped to swell foreign exchange reserves and boosted the current account surplus of member states whilst the recent slump has led to a sharp reversal of these trends.

⁷ Each bar represents the contribution to the economic risk score from that theme in each year. The scores were standardised based on the long-run average and standard deviation of each

Fig. 30. External risk over time in MENA and South Asia vs the oil price


Source: Oxford Economics

There is a close association between changes in monetary policy and risks related to price and cost stability. For example, 2008 was coincident with a rapid rise in inflation across the B&R region (reflecting the very strong growth in oil prices) and a deteriorating outlook for exchange rates—factors that quite rapidly reversed in 2009-2010. Monetary policy was also extremely loose during this period with real interest rates declining to historic lows during 2008.

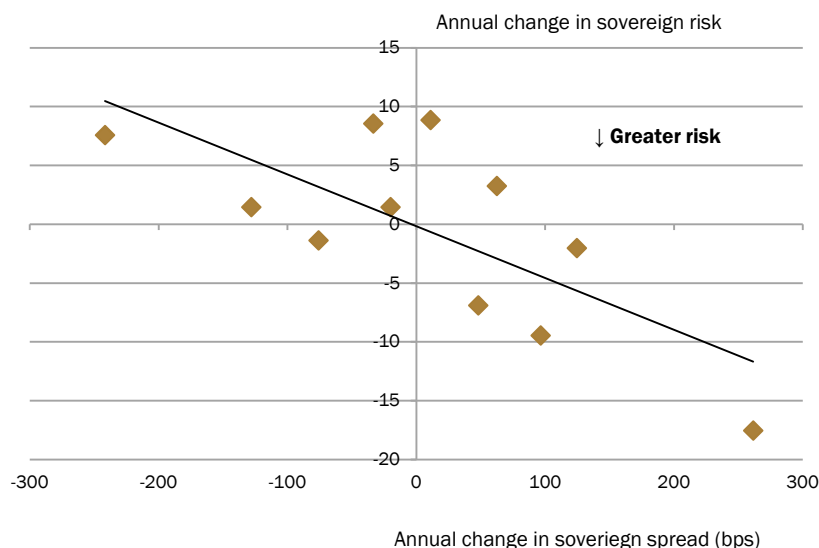
Fig. 31. The path of monetary policy and price and cost stability in the B&R, 2006-2016


Source: Oxford Economics

Our measure of sovereign risk tallies strongly with market's implied perception of risk. A measure of the financial markets' perception of a country's fiscal sustainability can be taken by the difference between the yield on debt issued by the government and the return offered by equivalent US Treasury—the so-called 'sovereign spread'. Fig. 32 illustrates that there has been a strong negative association between changes in a country's sovereign risk index theme score and the change in the sovereign spread of their debt. Essentially, deteriorations in our

sovereign risk index score (implying deterioration in a country's fiscal sustainability) has historically led to its debt becoming relatively more expensive to insure and vice versa.

Fig. 32. Co-movement between sovereign risk index score and sovereign spreads, 2005-2016, selected economies in the B&R region⁸



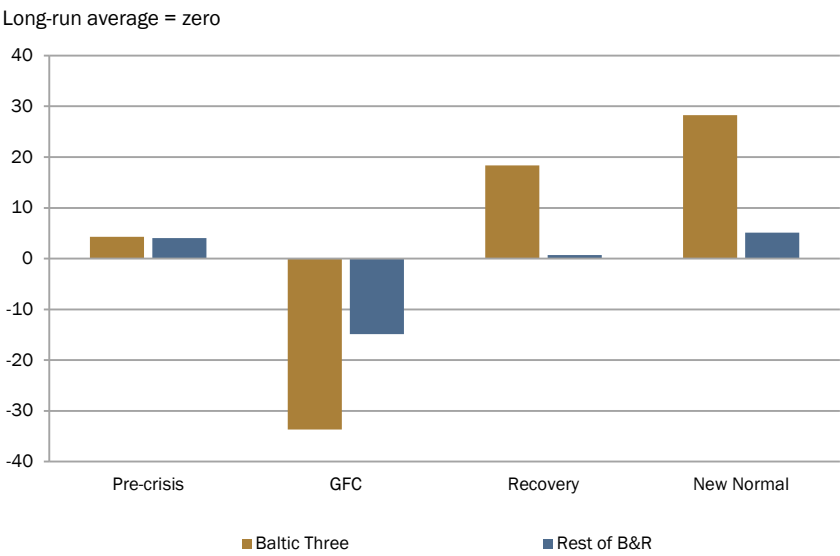
Source: Oxford Economics, Haver Analytics

The 'new normal' period has seen a sharp divergence in the change in economic health of countries across the B&R region. In terms of relative movers during this period a clear pattern emerges. The most substantial declines in economic health have all been recorded in oil producers, including Azerbaijan, Saudi Arabia, Qatar and Oman. On the other hand, some of the countries to have enjoyed the most significant improvements in relative economic health are net importers of oil clustered in the CEE region such as Serbia, Bosnia and Bulgaria. The major outlier to this trend is Iran where economic health has picked up noticeably since 2014. Here, the end of sanctions and the subsequent improvement in economic conditions, most notably in terms of a sharp drop in inflationary pressure.

The Baltic economies enjoyed the most rapid rebound in economic health following the GFC. Virtually across the board, the effect of the GFC was to reduce economic health (Lebanon was the outlier reflecting an exceptional spike in growth during 2008-2009). Nowhere was this more keenly felt than the Baltic region economies whose highly open economies nosedived into very deep recessions even by the standards of the times. This took economic health in these countries to a relatively low level versus the rest of the B&R. However, this picture quickly reversed as the global economy rebounded and the depth of the recession in 2009 helped to sustain a very strong cyclical rebound. Finally, the 'new normal' period has seen these countries march further ahead of the curve. Lower oil prices have supported growth and helped to improve external balance.

⁸This chart is based on data for the following economies: China; Hungary; Indonesia; Lebanon; Malaysia; Pakistan; the Philippines; Poland; Russia; Serbia; Turkey; the Ukraine; and Vietnam. These were the countries in the B&R region for which time series data (for the full period) on sovereign spreads was available.

Fig. 33. Economic health of the Baltic economies compared to the rest of the B&R over time



Source: Oxford Economics

6. Conclusion

This report marks the launch of a highly innovative piece of thought leadership related to the Chinese government's B&R initiative. This flagship policy looks set to have a transformative effect on the region, boosting connectivity and trading links across a vast geographic area. Our B&R Economic Health Index has been designed to provide a broad overview of the relative attractiveness of each of these 65 economies within a monitoring framework that will be updated monthly, helping investors to make informed decisions.

Our analysis reinforces that the B&R comprises a highly diverse set of markets, which in turn has important implications for investors considering opportunities. Many of the countries across Central and South Asia on the face of it look to be dynamic with strong growth prospects but viewed in terms of their tax and regulatory regimes or in terms of the robustness of legal institutions, start to look less favourable. More widely, our Index shows that external and sovereign risks are currently, on average, at some of the most elevated levels in the last 10 years.

The gap between the best and worst performing countries across the B&R has narrowed in the past decade but, nonetheless, remains considerable and continues to shift in response to macroeconomic conditions and localised risk. Looking ahead, our Index will become a central tool in enabling investors to consistently monitor the balance of risk versus reward in these markets, either taken as a whole or considered individually and in relation to one another.

Annex 1 – Full compendium of results

Fig 34 Overview of headline index scores and rankings

Country	Score			Rank		
	Macroeconomic	Risk outlook	Economic health	Macroeconomic	Risk outlook	Economic health
United Arab Emirates	68.6	74.6	71.6	6	3	1
China	76.4	66.4	71.4	1	14	2
Estonia	69.4	69.1	69.3	5	8	3
Qatar	74.7	62.4	68.6	2	23	4
Israel	62	73.1	67.5	15	4	5
Turkmenistan	63.6	71.1	67.4	12	6	6
Singapore	71.7	62	66.8	3	24	7
Malaysia	65.9	67.7	66.8	10	11	8
Czech Republic	59	71.7	65.3	22	5	9
Vietnam	71.5	57.8	64.6	4	34	10
Brunei	44.8	84.2	64.5	55	1	11
Macedonia, FYR	60.3	68.4	64.3	19	9	12
Poland	59.7	66.5	63.1	21	13	13
Philippines	65.7	59.8	62.8	11	28	14
Kazakhstan	59.9	65.6	62.7	20	18	15
Kuwait	45.2	79.5	62.3	52	2	16
Lithuania	63.1	61	62.1	14	25	17
Thailand	55	68.3	61.6	30	10	18
Slovak Republic	63.1	59.6	61.4	13	29	19
Indonesia	61.5	60.6	61.1	16	27	20
India	66.1	55.8	61	9	37	21
Uzbekistan	56.5	64.5	60.5	24	19	22
Georgia	68.2	52.4	60.3	7	41	23
Romania	53.2	66.9	60.1	37	12	24
Latvia	60.4	59.6	60	18	30	25
Slovenia	55.3	64.1	59.7	28	21	26
Bulgaria	52	66.1	59	40	15	27
Saudi Arabia	52.4	65.6	59	38	17	28
Hungary	55.8	60.8	58.3	26	26	29
Russian Federation	46.2	70.4	58.3	51	7	30
Azerbaijan	53.2	63	58.1	36	22	31
Croatia	48.9	65.9	57.4	46	16	32
Oman	50.3	64.2	57.3	42	20	33
Turkey	52.2	59.2	55.7	39	31	34
Moldova	54.7	54.4	54.6	31	40	35
Bangladesh	58.1	50.3	54.2	23	43	36
Albania	50.6	56.3	53.4	41	36	37
Cambodia	56.4	50.2	53.3	25	44	38
Belarus	48.5	57.5	53	47	35	39
Serbia	46.3	58.9	52.6	50	32	40
Montenegro	46.3	58.1	52.2	49	33	41
Nepal	48.3	55.8	52	48	39	42
Pakistan	55.1	48.9	52	29	46	43
Sri Lanka	54.5	48.7	51.6	32	47	44
Bhutan	67.7	33.4	50.5	8	60	45
Maldives	50.2	50.1	50.1	43	45	46
Iran, Islamic Rep.	54.3	45.7	50	34	50	47
Myanmar	55.7	43	49.3	27	53	48
Bosnia and Herzegovina	42.6	55.8	49.2	58	38	49
Armenia	45.2	51	48.1	54	42	50
Jordan	54	39.5	46.8	35	57	51
Mongolia	54.5	38.3	46.4	33	58	52
Lebanon	49.6	42.5	46	44	55	53
Bahrain	45.2	46	45.6	53	49	54
Lao PDR	61.3	29.3	45.3	17	62	55
Kyrgyz Republic	44	44.1	44	56	51	56
Iraq	39.2	46.6	42.9	59	48	57
Palestine	43.2	42.6	42.9	57	54	58
Egypt, Arab Rep.	49.4	32.3	40.8	45	61	59
Tajikistan	38	40.2	39.1	61	56	60
Ukraine	38.1	38.3	38.2	60	59	61
Afghanistan	27.6	43.5	35.6	63	52	62
East Timor	27.8	15.9	21.8	62	65	63
Yemen, Rep.	21.9	20.5	21.2	64	63	64
Syrian Arab Republic	13.4	16.7	15.1	65	64	65

Source: Oxford Economics

Fig. 35. Overview of current outlook component scores and rankings

Country	Current Outlook			
	External demand	Domestic demand	Short-term prospects	Total
Lao PDR	32.9	95.2	89.3	87.3
Bangladesh	51.1	84.5	87.2	83.6
China	29	85.3	88.3	82.2
India	29.2	73.6	97.3	82
Philippines	25.8	99.3	79.5	81.9
Bhutan	0	88.9	100	80.7
Vietnam	39.4	100	89.9	80.3
Cambodia	49.7	78.9	91.4	79.7
Uzbekistan	80	82.8	70.2	76.1
Pakistan	41.4	76.9	72.1	73.2
Qatar	28.7	90.6	73.8	71.8
Turkmenistan	64	80.9	65.7	70.7
Indonesia	39.1	67.4	70.7	66.8
Georgia	59	71.7	63.1	66.1
Iran, Islamic Rep.	47.7	69.4	58.6	61.8
Maldives	69.7	59.7	56.6	61
Estonia	85.8	55.7	51.3	60.3
Myanmar	26.3	59.2	63.5	59.6
Slovak Republic	86.5	79.8	35	59.1
Nepal	26.5	70	61.2	58.8
Albania	52.6	60.8	55.3	57.2
Sri Lanka	53.6	51.2	61.8	56.7
Latvia	71.1	61.2	48.2	56.5
Moldova	100	49.4	45.8	55.4
Hungary	85.8	57.5	38.3	55.1
Singapore	91.4	5.4	43.5	54.6
Macedonia, FYR	75.1	61.2	43	54.2
East Timor	34.3	31	75.9	54
Israel	38.7	60.2	50.8	53
Lithuania	73.5	58.9	40.2	52.7
Kazakhstan	75.4	53.8	45.2	52.3
Malaysia	34.2	54.7	58	52.1
Czech Republic	83.9	65.8	28.8	51.5
Mongolia	61.7	37.7	56.6	50.9
Montenegro	58.1	57.4	44	50.8
Romania	71.2	63.4	35.4	50.6
Bosnia and Herzegovina	86.2	52.9	39.5	50
Poland	71.5	51.3	40.2	49.3
Palestine	38.1	55.1	46.4	48.1
Bulgaria	91.8	49.9	29.5	48
Brunei	11.4	61.4	50.3	47.5
Jordan	24.9	58.1	41.8	46.6
Thailand	45.2	51	42.5	45.5
Egypt, Arab Rep.	37	47.4	42.7	44.6
United Arab Emirates	66.7	39.6	33.4	43.8
Iraq	37.4	45.5	43.7	43.4
Saudi Arabia	85.1	43.5	29.8	41.5
Kyrgyz Republic	76.3	23	43.2	41.4
Kuwait	29.4	49.4	38.3	40.6
Azerbaijan	46	48.3	32.4	40
Ukraine	22.1	50.6	37.5	39.5
Slovenia	34.8	46.2	36.4	38.6
Lebanon	42.3	40.4	35.9	38.4
Serbia	32	44.8	34	37.3
Afghanistan	6.4	41.6	43.3	37
Turkey	53.8	32.1	37.4	36.7
Croatia	61.8	36.5	27.6	36.4
Yemen, Rep.	27.8	0	59.8	34.2
Armenia	47.3	22.9	37.6	34
Oman	34.5	9.1	44.2	30.7
Tajikistan	34.3	14.9	32.2	26.6
Belarus	45.2	24.7	14.8	23.6
Russian Federation	29	15.4	18.3	18.3
Bahrain	9.8	4.3	23.2	15
Syrian Arab Republic	69.3	0	0	7.1

Source: Oxford Economics

Fig. 36. Overview of market fundamentals scores

Country	Market Fundamentals			
	Market size and growth	Tax and regulatory	Financial and physical	Total
United Arab Emirates	51.1	95.5	99.1	81.9
Singapore	46.2	96.4	100	80.9
Qatar	64.5	81.3	83.2	76.3
Estonia	42.9	100	79.9	74.3
China	93.1	42.2	84.7	73.3
Malaysia	52.9	74.2	92.8	73.3
Georgia	45.6	96.7	65.6	69.3
Lithuania	31.9	96	78.2	68.7
Israel	59.9	62.7	78.1	66.9
Vietnam	79.9	49.5	70.6	66.7
Slovak Republic	36.7	83.8	75.4	65.3
Poland	45.2	79.2	71.5	65.3
Slovenia	28.2	84.8	79.8	64.3
Kazakhstan	62.5	76.9	52.6	64
Macedonia, FYR	32	95.2	63.4	63.5
Czech Republic	31.9	75.5	81.7	63
Latvia	35.6	93.3	58.6	62.5
Belarus	23.5	85.3	76.9	61.9
Bahrain	25.4	83.7	75.2	61.4
Russian Federation	38.6	74.7	70.2	61.2
Oman	32	83.9	66.8	60.9
Bhutan	63.2	76.9	41.9	60.7
Turkey	50.1	58.4	73.2	60.6
Azerbaijan	40.1	78.4	62.7	60.4
Thailand	43.6	65.9	70.8	60.1
Turkmenistan	72.4	60.1	46.8	59.8
Indonesia	75.4	42.4	58.4	58.7
Saudi Arabia	41.9	58.3	74.6	58.3
Jordan	49.2	61	64.1	58.1
India	100	7.8	64.9	57.6
Philippines	74	38.2	58.9	57
Mongolia	54.9	76.7	37.6	56.4
Hungary	21.2	77	70.2	56.1
Croatia	24.5	71.4	71.1	55.7
Lebanon	50.7	46.1	70.2	55.6
Romania	33.9	77.5	52.5	54.6
Moldova	34.3	76.4	52.5	54.4
Bulgaria	27.8	72.6	61.9	54.1
Myanmar	89.6	34.9	36.1	53.5
Sri Lanka	64.1	42.1	53.8	53.3
Egypt, Arab Rep.	61.3	42.6	52.2	52
Armenia	27.2	80.7	45.5	51.2
Serbia	29.5	78	45.7	51.1
Iran, Islamic Rep.	41.2	51.1	58.4	50.2
Kuwait	41.2	45.1	56.9	47.7
Lao PDR	76.5	41.5	23.8	47.3
Albania	32.9	66.9	41.2	47
Uzbekistan	47.3	45.2	45.6	46
Kyrgyz Republic	50.1	70.6	15.6	45.4
Pakistan	78.8	17.5	40	45.4
Maldives	46.9	41.2	45.1	44.4
Bangladesh	86.4	16.2	30.4	44.4
Tajikistan	76.9	39.2	16.3	44.1
Montenegro	16.9	71.7	42.9	43.8
Cambodia	88.4	8.7	34.2	43.8
Brunei	16.8	52.5	60.8	43.4
Nepal	39	50.2	38.6	42.6
Palestine	39.7	35.9	46	40.5
Bosnia and Herzegovina	30.4	32.7	52.8	38.6
Ukraine	5.9	61.3	45	37.4
Iraq	34.9	32.5	43.5	37
Afghanistan	48	1.7	17.9	22.5
Syrian Arab Republic	22.6	0	28	16.9
Yemen, Rep.	21.4	24.6	0	15.3
East Timor	0	12.1	29.2	13.7

Source: Oxford Economics

Fig. 37. Overview of economic risk scores

	Economic Risk				
	Monetary policy	Sovereign risk	External risks	Price and cost stability	Total
Brunei	100	67.3	100	100	88.6
Kuwait	69.2	100	82.3	89.6	87.6
Turkmenistan	0	82.1	82.3	83.6	82.4
Saudi Arabia	50.7	61.5	91.5	92.2	75
Russian Federation	50.3	83.4	77	74.8	74.9
United Arab Emirates	38	94.9	55	87.6	71.3
Israel	49.2	72	70.6	92.7	71.2
Uzbekistan	0	80.3	72.3	47.2	71.2
Thailand	58.1	69.6	69.5	75.6	68.8
Macedonia, FYR	67.7	81.1	45.9	88.5	67.9
Czech Republic	41.2	90	45.4	91.9	67.3
Afghanistan	56.2	67.9	73.9	59.4	67
Azerbaijan	73	71	59.5	62	65.9
Bulgaria	46.5	76.7	56.3	79.3	65.4
Qatar	39.9	79.7	50.9	91.3	65.4
China	39.9	67.3	63.9	87.8	65
Romania	56.1	70.3	52.6	89.6	64.9
Nepal	46.7	62.3	70.5	74.8	64.7
Turkey	34.5	92.5	39.6	84.8	64.1
Oman	36.6	79.4	48.7	89.3	63.7
Indonesia	55.4	66.6	58.6	76	63.6
Kazakhstan	59.8	96.4	26.3	60.8	61
Poland	47	66.4	49.1	89.3	60.9
Malaysia	53.4	73.5	41.3	82.9	60.6
Croatia	60.7	57.2	53.9	82.4	60.4
Estonia	37.2	98.5	25.5	74.1	60.1
Bangladesh	52.3	52.9	63.3	75.3	59.8
India	68	47.3	63.8	70.7	59.7
Philippines	46.1	50.7	64.5	83.1	59.7
Iraq	48	40.3	74.2	69	57.6
Bosnia and Herzegovina	45.7	61.9	43.6	84.9	56.5
Hungary	48	54.7	52.1	76.1	56
Serbia	52.6	55.5	51	69.3	55.5
Maldives	95.6	30.1	53.5	79.5	55.5
Myanmar	59.9	56.6	57.5	42.7	55.3
Belarus	82.8	88.5	31.3	3	54.8
Palestine	63.4	49.1	40.1	93.6	54.8
Vietnam	55.9	40.8	59.8	72.9	54.5
Slovenia	47.4	62.7	37.3	78.3	53.8
Slovak Republic	37.9	78.6	29	66.2	53.3
Lithuania	41.7	80.2	24.5	65.6	52.7
Moldova	72.2	45.4	41.2	77.4	52.7
Albania	50.4	50.1	36.1	89.3	51.1
Cambodia	31.5	48.2	47.6	84.9	51
Latvia	41.9	84.7	7.4	80.6	50.6
Iran, Islamic Rep.	0	78.9	64.7	0	50.3
Pakistan	54.2	40.8	49	66	49.5
Armenia	60.4	44.9	39.2	69.3	48.9
Montenegro	35.6	53.3	36.1	77.6	48.3
Lebanon	45.8	25.6	59.7	72.3	47.6
Sri Lanka	33.6	48.2	38.5	71.7	46.2
Georgia	52.2	56.3	18.9	73.9	45.3
Kyrgyz Republic	54.3	38.1	41.2	56.6	44.4
Singapore	34.3	55.2	20.9	72.2	42.6
Bahrain	41.7	29.9	25.6	75.1	37
Ukraine	72.7	40.8	27	12.9	36.6
Tajikistan	39.1	40.1	15.8	65.1	35.2
Jordan	31	31.7	24.8	65.2	34.2
Bhutan	43.4	10.8	32.7	74.5	32.9
Mongolia	65.7	19.9	0	73.7	27.9
Lao PDR	0	24.5	7.6	81.6	27.6
Egypt, Arab Rep.	8.7	5.8	44.2	41.6	25
East Timor	49.9	9.5	4.6	67.6	22.6
Syrian Arab Republic	0	3.9	26.4	24.4	16.8
Yemen, Rep.	0	0	33.1	3.4	14.2

Source: Oxford Economics

Fig. 38. Overview of political risk scores

Country	Political Risk			
	Business environment	Conflict and security	Political outlook and policy	Total
Singapore	100	91.9	100	98
Estonia	75.9	91.9	100	85.9
Slovenia	80	100	73.2	83.3
Malaysia	82.4	92.4	65.9	80.8
United Arab Emirates	72.5	91.9	85.4	80.6
Czech Republic	71.5	96.1	80.5	79.9
Poland	75.5	92.2	64.7	77
Israel	78.2	71.5	78.1	76.5
Lithuania	71.7	75.7	86.6	76.4
Montenegro	74.1	92.2	64.7	76.3
Croatia	76.4	80.2	72	76.3
Latvia	75.3	67.9	86.6	76.2
Brunei	55.1	95.8	98.8	76.2
Kazakhstan	90.8	68.4	46.4	74.1
Slovak Republic	63.8	92.2	65.9	71.4
Romania	70.7	88	53.6	70.8
Hungary	66.9	79.9	64.7	69.6
Macedonia, FYR	83	64	47.5	69.4
China	63.8	83.8	64.7	69
Bulgaria	75.8	72.1	46.4	67.5
Thailand	78.7	72.3	40.2	67.5
Albania	70.1	64	59.8	66
Georgia	74.6	59.8	53.6	65.7
Oman	49.1	84.3	78.1	65.2
Serbia	62.8	67.9	67.1	65.1
Kuwait	52.6	80.2	72	64.3
Vietnam	49.4	91.9	64.7	63.8
Bahrain	47.8	68.4	86.6	62.7
Belarus	68.1	75.5	37.9	62.4
Russian Federation	72	43.9	59.8	61.9
Philippines	43.7	72.1	80.5	60
Mongolia	61.7	68.1	39.1	57.7
Azerbaijan	64.5	55.9	45.2	57.5
Moldova	63.8	55.9	46.4	57.5
Qatar	28.9	91.6	78.1	56.9
Indonesia	42.9	76.2	58.6	55.2
Armenia	64.2	52	39.1	54.9
Bosnia and Herzegovina	64.3	56.4	32.9	54.5
Sri Lanka	48.1	56.1	60.9	53.3
Uzbekistan	60.7	60	26.8	52.1
Turkmenistan	0	63.7	36.7	50.2
Turkey	65.5	36	32.9	50
Tajikistan	57.3	44.1	39.1	49.5
Jordan	30.7	64	72	49.3
Cambodia	34.8	72.1	53.6	48.8
India	46	43.9	58.6	48.6
Saudi Arabia	34.5	64	59.8	48.2
Pakistan	52.1	40	47.5	47.9
Egypt, Arab Rep.	36.2	56.7	53.6	45.7
Kyrgyz Republic	48.3	44.4	32.9	43.5
Ukraine	47.5	44.1	26.8	41.5
Maldives	40			40
Nepal	47.6	36.3	25.6	39.3
Iran, Islamic Rep.	33.1	43.3	39.1	37.2
Bhutan	34.3			34.3
Lebanon	33.4	39.9	25.6	33.1
Bangladesh	24.8	40.2	40.2	32.5
Lao PDR	21.2	56.4	30.6	32.3
Yemen, Rep.	32.1			32.1
Iraq	22	20.1	40.2	26.1
Myanmar	5	44.1	26.8	20.2
Palestine	19.9			19.9
Syrian Arab Republic	33.2	0	0	16.6
East Timor	3.4			3.4
Afghanistan	0			0

Source: Oxford Economics

Annex 2 – Overview of model and reporting coverage

The indicator coverage of the model and how each variable was specified is set out in the table below. Further information on the rationale behind the selection of variables can be found in our accompanying methodology document. However, in broad terms indicator selection was based on a number of principles which underpinned our approach as follows:

- **Coverage:** for an index to provide a strictly comparable analytical framework, it is important that it is based on the same underlying data. Given the nature of data compilation in some B&R markets, this meant that a number of secondary indicators were excluded on the basis of insufficient coverage across the region;
- **Periodicity:** the variables need to be updated on a sufficiently frequent basis given the index maintenance frequency (described below);
- **Timeliness:** the objective of the index is to provide up-to-date information about the evolution of conditions. Therefore, it was important that the data is sufficiently timely to provide near-term information; and
- **Credibility:** our secondary data is only drawn from highly respected and credible data providers, either with official statistical authority in the relevant country or from multi-lateral organisations such as the World Bank or the IMF.

Fig. 39. Overview of indicator coverage

Sub-category	Theme	Indicator	Units
Current outlook (0.5)	Domestic demand (0.5 * domestic demand's share of total final	Consumer spending (country specific)	Annualised Q-Q growth current quarter or % yr current yr
		Investment (country specific)	Annualised Q-Q growth current quarter or % yr current yr
		Government consumption (country specific)	Annualised Q-Q growth current quarter or % yr current yr
	External demand (0.5 * exports share of total	World trade - goods (country specific)	Index measure
		World trade - tourism (country specific)	Index measure
	Short-term prospects (0.5)	Economic growth (0.5)	Real GDP growth forecast (2-yrs)
Market fundamentals (0.5)	Market size and growth (1/3)	Consumer spending growth (0.5)	Real consumption growth forecast (2-yrs)
		Growth stability (0.15)	Standard deviation GDP growth
		Market size (0.25)	Log(GDP\$)
		Demographic health (0.3)	Working-age pop growth (10-yrs)
	Tax and regulatory environment (1/3)	Productivity performance (0.3)	Labour productivity growth (10-yrs)
		Trading across borders (0.2)	EBDS index score, 0-100
		Paying taxes (0.2)	EBDS index score, 0-100
		Starting a business (0.2)	EBDS index score, 0-100
	Financial and physical infrastructure (1/3)	Dealing with construction permits (0.2)	EBDS index score, 0-100
		Registering a property (0.2)	EBDS index score, 0-100
		Getting electricity (0.2)	EBDS index score, 0-100
		Fixed broadband subs (0.2)	Subs per 100 people
		Transport infrastructure (0.2)	WEF
		Monetary base (0.1)	% GDP
		Private sector loans (0.1)	% GDP
		Interest rate spread (0.2)	% points
Economic risk (0.65)	Monetary policy (0.15)	M2 (0.2)	3 MMAV annual growth as % GDP
		Consumer credit (0.2)	3 MMAV annual growth as % GDP
		Business lending (0.2)	3 MMAV annual growth as % GDP
		Real interest rate (0.4)	3 MMAV level
	Sovereign risk (0.35)	Government debt (0.3)	% of GDP
		Fiscal balance (0.3)	% of GDP
		Government revenue growth (0.15)	% yr next 3-yrs
		GDP per capita (0.25)	US\$, PPP exchange rate
	External risk (0.35)	Reserve coverage (0.2)	FX reserves, months of imports
		Current account balance (0.2)	% GDP
		External debt (0.2)	% GDP
		External debt (0.2)	% exports
	Price and cost stability (0.15)	Term structure (0.2)	% of external debt that is short-term
		Inflationary outlook (0.3)	CPI % yr, 12-month forecast
		Inflation volatility (0.3)	Standard deviation CPI growth
		Energy import dependence (0.2)	Energy imports % GDP
	Exchange rate valuation (0.2)	Current rate vs estimated equilibR Initiativeum value	

Political risk (0.35)	Business environment (0.5)	Investor protection (1/3)	EBDS index score, 0-100
		Contract enforcement (1/3)	EBDS index score, 0-100
		Insolvency law (1/3)	EBDS index score, 0-100
	Conflict and security (0.25)	Security environment (1/3)	EPRE measure, 0-10
		Social cohesion (1/3)	EPRE measure, 0-10
		International relations (1/3)	EPRE measure, 0-10
	Political outlook and policy (0.25)	Political stability (0.5)	EPRE measure, 0-10
		Ideology and policy (0.5)	EPRE measure, 0-10

*based on data indicators related to the quality of power, internet and transport infrastructure

The frequency with which we will update different index themes will vary depending on the periodicity of the publication of underlying data. Within the macroeconomic performance category, the index covers both rapidly evolving trends related to the near-term (in the current outlook component) and typically slower-moving structural features (in the market fundamentals component). As part of this project, we will provide monthly updates of the headline index results but the update frequency of each index theme (Fig.40) will vary. Faster changing trends tracked within the current outlook component of the index will be reviewed each month whereas the more structural indicators that make up the market fundamentals section of the index will only be updated once a year. On the other hand, themes that form part of the risk outlook category (both economic and political) are likely to be subject to periods of relative stability but occasional sudden change. In most cases, the data raw data indicators that underpin the index scores are published every three months. Therefore, we will update our economic and political risk measures on a quarterly basis⁹.

Fig. 40. Overview of update periodicity by index theme

Component	Theme	Update frequency		
		Monthly	Quarterly	Annual
Current outlook	Domestic demand	✓		
	External demand	✓		
	Short-term prospects	✓		
Market fundamentals	Market size and growth			✓
	Tax and regulatory environment			✓
	Financial and physical infrastructure			✓
Economic risk	Monetary policy		✓	
	Sovereign risk		✓	
	External risk		✓	
	Price and cost stability		✓	
Political risk	Business environment			✓
	Conflict and security		✓	
	Political outlook and policy		✓	

Source: Oxford Economics

⁹The exception to this is data associated with risk related to the business environment. These are taken from the World Bank's Ease of Doing Business survey which is updated on an annual basis.

Notes

[illegible]

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Notes

[illegible]

Disclaimer

This is a marketing communication which has been prepared by ICBC Standard Bank Plc (ICBCS) working in conjunction with Oxford Economics, and is provided for informational purposes only.

The Belt and Road Economic Health Index and China Connectivity Index ("Indexes") are non-financial custom indexes designed and calculated by Oxford Economics for, and as requested by ICBCS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of ICBCS, and in particular may not be used as a basis for or a component of any financial instruments or products or indices. The material does not constitute, nor should it be regarded as, investment research. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Additional information with respect to any data modelling or analysis referred to herein may be made available on request. This material is for the general information of institutional and market professional clients of ICBCS and should not be considered to be investment advice. The information, tools and material presented in this marketing communication are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities, commodities or other financial instruments, or to participate in any particular trading strategy, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This material is based on information that we consider reliable, but ICBCS does not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. ICBCS accepts no liability for loss, either directly or indirectly, arising from the use of the material presented in this communication, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to ICBCS. The information and opinions contained in this document were produced by ICBCS as per the date stated and may be subject to change without prior notification. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update the material in this report on a timely basis, but regulatory compliance or other reasons may prevent us from doing so.

All trademarks, service marks and logos used in this communication are trademarks or service marks or registered trademarks or service marks of ICBCS or Oxford Economics.

This communication is distributed by ICBC Standard Bank Plc, 20 Gresham Street, London EC2V 7JE which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and the Financial Conduct Authority ("FCA").

Copyright 2016 ICBC Standard. All rights reserved.



ICBC Standard Bank | Financial Markets and Commodities
20 Gresham Street | London EC2V 7JE, United Kingdom

20170620-6813-GL-ICBC