

Weekly Commentary 48 – Dec 2023

Contrasting views on China's BRI

When China was growing at more than 10 % a year, the rest of the world thought it would go on forever. Now that is not, western media and analysts are quick to castigate its leadership. This is ridiculous.

To put things in perspective, the Chinese economic miracle has been in play for 45 years, and there is no need to doubt that it is already successful. As a matter of fact, China has been willing to share its success through its BRI, a program of infrastructure building that the collective west has not been able to replicate, in spite of centuries of colonialization and empty promises about helping poorer countries. The Build Back Better initiative floundered even before the Biden went home from that G7 meeting more than 2 years ago in the UK. Yet, BRI was just celebrating its 20th year anniversary last month.

Indeed, China is now growing at only 5% rather than double that number. The resources available would of course be less. But I for one am confident that China's economy will bounce back and when Indonesia likes its bridge between Java and Sumatra or the high speed rail between Jakarta and Surabaya, these projects will strengthen not just Indonesia but all of ASEAN. The entire SEAsia region will become a new centre or source of global economic growth and everywhere people asked to choose between China and the US will look at which side of their bread has more Chinese jam or American butter. In Asia, there is no doubt which will be preferred.

For the time being, China is still shrugging off the effects of the pandemic and the despicable trade policies that the Biden administration has imposed to sabotage its growth. But this will be temporary. After all, there are 1.4 billion higher talented people in China and these will rise to the challenge. Look at how they handled the chip sanctions. In a very short time, they came up with the Kirin chip and has produced the downstream technology that arguably is better than Apple's. In the meantime, the western media write endlessly about how China is a shadow of its past. When it rebounds, let's see what they will say.

Here is a typical article from Bloomberg.

China's Economic Heft Sinks for First Time in Three Decades

American consumers are helping power an ascendant US economy—at China's expense.

By Chris Anstey

December 2, 2023 at 7:45 PM GMT+8

For most of us, weight loss is a positive. For an economy, not so much. New analysis showing that China's global heft has declined for the first time since 1994 illustrates why its chances of overtaking the US economy are increasingly in doubt. (Mr Anstey apparently does not understand the concept of Purchasing Power Parity – measured by that global standard, China has already overtaken the USA by 20%)

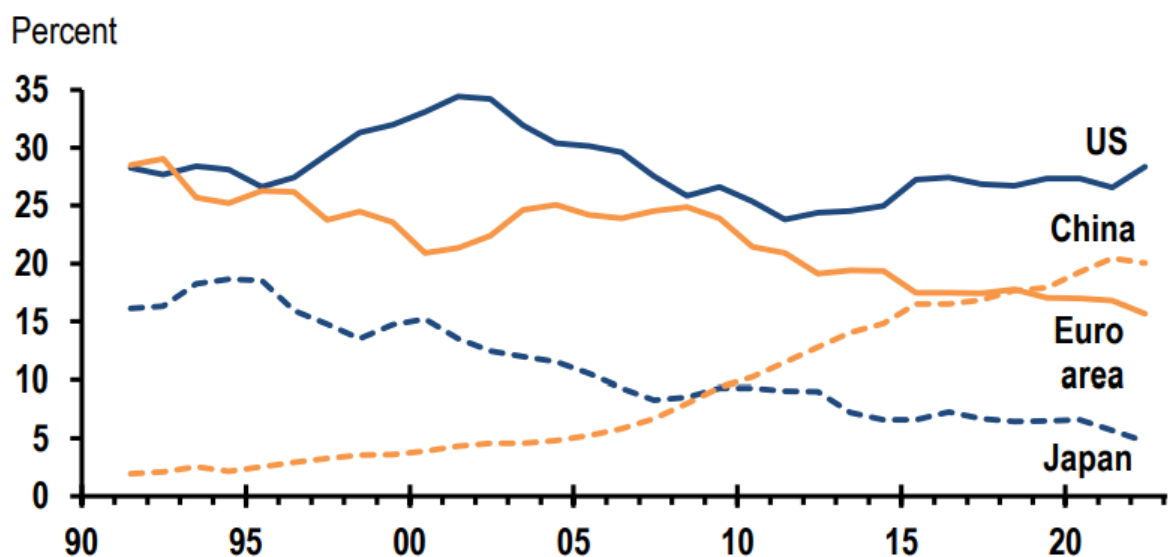
While the International Monetary Fund and others regularly cite China as the world's biggest contributor to growth, that's been shown to be a misleading gauge.

For one thing, such statements use "real" GDP figures—that is, adjusted for inflation. But we live in a nominal world, one where prices aren't discounted by inflation but are the actual numbers on paychecks and store tags. Corporate sales are nominal. Government spending and tax revenue is nominal. You cannot make a "real" loan. You cannot pay debt back with "real" dollars.

And in the nominal world, the US remains the most consequential economy. JPMorgan Chase & Co. economists have updated their global assessments to take account of final figures for 2022, and they show America weighing in at 28.4% of the planet's gross domestic product. China came in at 20%.

This year, too, the US will outperform China, thanks in part to a decline in the yuan but also the resilient American consumer. As the two geo-strategic competitors battle for influence across the globe, American economic bulk will be a handy card.

Figure 4: Big 4 share of nominal GDP



Source: J.P. Morgan Global Economics

JPMorgan's team noted that it's rare for China's share of global GDP to shrink. Last year marked the first drop since 1994, when Beijing adopted a new exchange-rate regime that saw the dollar value of its output shrink.

All the more striking is that China's weight declined during a year when emerging markets as a whole expanded—and that in the face of the most aggressive series of interest-rate hikes by the US Federal Reserve in decades.

Typically, the onset of Fed tightening cycles would see major currency depreciation in developing nations, spurring them into growth-destroying rate hikes of their own. The last time the Fed was as aggressive as last year was the early 1980s, and that episode triggered a devastating debt crisis in Latin America.

This time around, major developing nations including Brazil had acted early against inflation on their own, supporting their currencies when the Fed kicked into action.

Performance by the emerging market group as a whole “was particularly impressive last year, overcoming its usual sensitivity to global shocks,” JPMorgan global economists Joseph Lupton and Bennett Parrish wrote in a report this week.

As for China, it “was held back by strict adherence to its zero Covid policy, resulting in a lack of immunity via infection and lockdowns that stifled activity,” Lupton and Parrish wrote. Add to that a severe property market downturn caused by efforts to reduce leverage and overbuilding.

That downturn stretched into 2023, and Beijing only in recent months has shifted gears to support developers. Falling property values meantime have hammered confidence among China's middle-class consumers. While President Xi Jinping and his lieutenants have taken a raft of steps to reinvigorate the private sector—including this week when Xi visited finance-and-tech hub Shanghai for the first time since 2020—the impact remains to be seen.

Full-year numbers for 2023 won't be available for months. But looking at the third quarter, it's clear China fell further behind the US. Its nominal GDP was up less than 3.5% from a year before in yuan terms. In dollars, it shrank notably, thanks to the yuan's retreat this year.

By contrast, US GDP last quarter was over 6% bigger than a year before. While some of that is thanks to inflation, it also owes to contributions from continued consumer spending and a manufacturing renaissance.

Nevertheless, beyond its current challenges, China has plenty of catch up potential. This is especially the case given its much lower per-capita income level relative to advanced economies.

But it longer likely to become the world's biggest economy “on any consistent basis.”

If that proves correct, it leaves the US with major bragging rights in the new emerging cold war—something that seemed impossible just a few years back.

And there are arrogant Americans who write that the BRI is being upended by the poor economic prospects facing Beijing:

Here is one such account:

China's Belt and Road Initiative Is Becoming A Global Calamity

Barry Gander

The “road to nowhere” is now heading for a cliff.

China's famed Belt and Road Initiative (BRI) is teetering on disaster, and could lead to a global domino effect where one country after another gets knocked down by economic failure.

Friend and colleague Chris Snow drew my attention to a podcast from Joe Blogs in which he explored the dangers. Blogs bases his findings on work by AidData, which has released a new, 400-plus page report — *Belt and Road Reboot: Beijing's Bid to De-Risk Its Global Infrastructure Initiative*.

The “Belt” refers to the historic overland routes through central Asia that used to link China with the West; “Road” refers to the sea routes of the same period that linked South Asia to the Middle East and Africa.

The BRI is the biggest single overseas investment project that any country has made in the past 20 years. 155 countries have signed up for the program, and they include 75% of the world's population and more than half of the world's GDP.

These countries have signed up for Chinese loans to construct massive infrastructure improvements. There has been ongoing concern that they will not be able to pay back the loans, which has consequences, but lately another and more desperate concern has arisen: can China afford to keep the construction going until the projects are finished?

When the BRI was started, bets were made on whether the projects were smart and/or whether they would be profitable.

No one considered the possibility that China would (economically) drive off a cliff.

Now China is having a Black Swan moment — a situation that was completely unforeseen.

China's own economy is tanking.

Outside investment in China has dropped 95% — a response to China's clumsy handling of the Covid crises as well as worker riots and the hostility brought on by the war in Ukraine.

CNN Business says “Consumer prices [in China] are falling, a real estate crisis is deepening and exports are in a slump. Unemployment among youth has gotten so bad the government has stopped publishing the data.”

The real estate market — the major source of investment for Chinese consumers — has seen a crash that is so bad that a major homebuilder and a prominent investment company have missed payments to their investors. Some 65 million homes sit empty — victims of the real estate drive that underlay the country's economy.

China's GDP targets are likely to be missed.

Which is really hard to do, because they are a fiction (???) anyway. Its international lending and grant-giving activities remain shrouded in secrecy.

Other nations look at Gross Domestic Product (GDP) as an output: the result of things going right in your economy. China looks on GDP as a measurement declared by the government that at all levels of society must strive to make happen.

So when you hear that “China's GDP grew by X% in the past year”, bear in mind that you are hearing “China's GDP TARGET was X% (and of course the government said it reached its target).”

China's ‘amazing’ GDP growth has been a sham for decades. One US prof estimates — based on NASA satellite imaging data about the consumption of electricity — that China's GDP numbers are over-estimated by one-third.

Authoritarian regimes routinely respond to bad news by lying, and when the GDP numbers don't seem even feasible to announce, they simply do not release economic numbers when they don't tell the happy success story that Beijing wants the world to hear. And China has stopped releasing the numbers.

China's economy is not going to overtake America's because it can't. Its labour costs are higher than competing regional neighbors, its social safety nets (ironically for a socialist country) are non-existent, and its finances are a fantasy.

Longer-term, the **demographics** are a nightmare. In the coming two decades China will lose a number of workers equal to the entire population of Brazil. The under-14 population is also going to fall, so there will be few people to replace the workers. Because of government policy — the one-child population control regulation — it has a dearth of women, and the women it does have seem to be disinclined to want children (two-thirds have expressed “low birth desire”). Fertility rates in Beijing and Shanghai have fallen to the lowest in the world.

China also has one of the fast-growing “debt burdens” in the world — the amount of money invested in projects whose economic benefits are less than their cost. Total debt as a share of GDP is now 295% in China, compared with 257% in the U.S.

Outside companies are overwhelmingly reducing their exposure in China. They are “re-globalizing” and spreading their operations to Vietnam, Indonesia, Sri Lanka, India and elsewhere.

Now, on top of this mess comes the BRI.

When it was started 20 years ago, the above factors had not clearly emerged.

The problem China has now is that the BRI client countries have not been very stable, and the money flows that could cover the interest payments alone have been falling behind...let alone attempt to pay down the loans themselves.

At one time, China could afford to keep supporting all of these projects. Now however China's economy has chugged to a halt. Exports are falling and Chinese companies are in ‘contraction’ mode.

The Yuan, therefore, has fallen in value, which makes matters worse.

And at this point in its development BRI projects are largely in a semi-complete stage. The only thing one can do with the projects at this time is keep financing them until they are

complete and are generating a return on investment. Almost 80% of the loans have been to countries that are in financial distress. China did very little in the way of financial analysis before plunging ahead with these projects. On top of that, the Chinese financing is not a grant, it is a loan, which means that the amount that the countries need to pay back is becoming an even greater burden for them...and a less likely prospect that they will pay back the loan. By the time the projects are finished, control of the assets will be in Chinese hands.

This means that in 146 countries, control over their power stations, roads, and other infrastructure could soon run by the Chinese.

China could be in a position to demand that these countries increase their sales to China and to use Chinese Yuan as the global currency. These aspects of political control are of global impact.

But China has another problem as well. The \$1.3-trillion that is already invested by China is like an anchor chain looped around its ankle...it is money that has already been spent and China has to keep following the anchor down until the project are completed...until bottom is reached. China needs to continue investing at a time when their own economy is shrinking and the money would be better invested back in China.

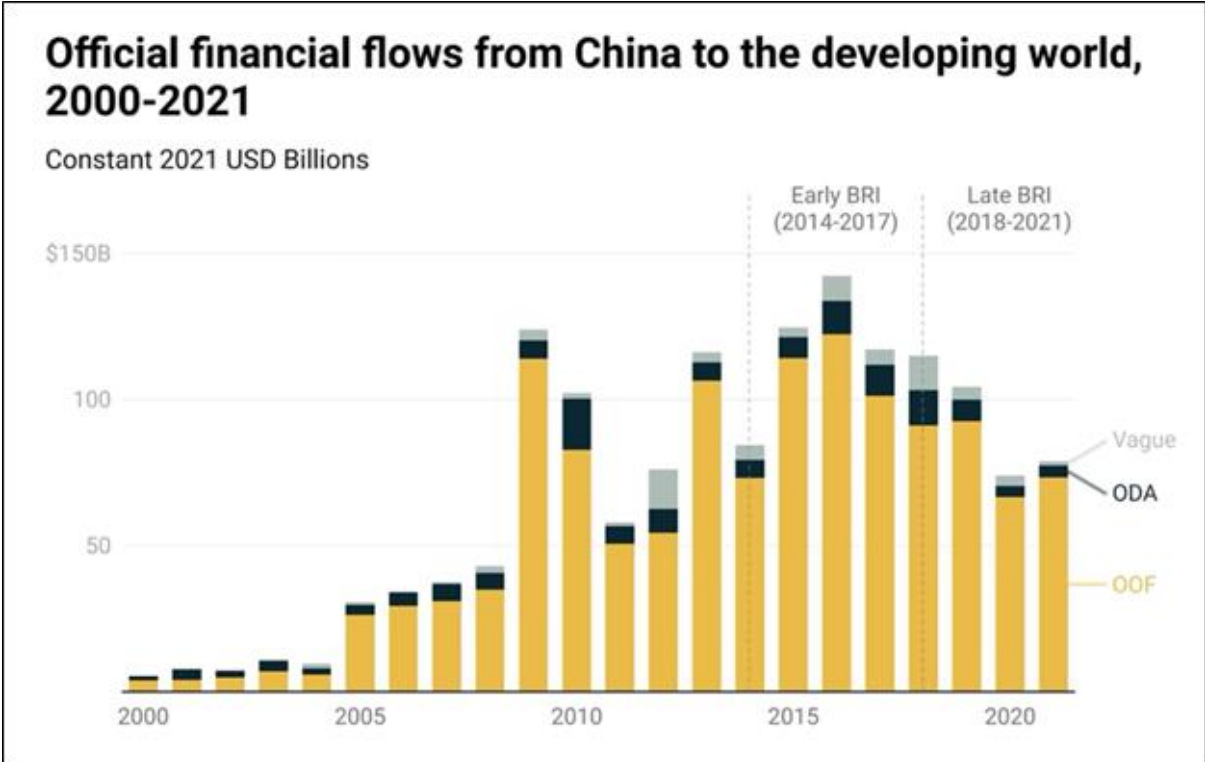
If China does not have the financial reserve to finish the projects, they will become uncompleted ruins for later generations to gawk at. There is not much value in half of an electrical dam.

This means that China's investment thus far could be completely worthless.

Further bad news: China will soon face higher levels of competition in the global infrastructure finance market due to the US Build Back Better World Initiative and the E.U.'s recently announced Global Gateway Initiative.



There are 20,900 BRI projects with a total value of \$1.3-trillion.



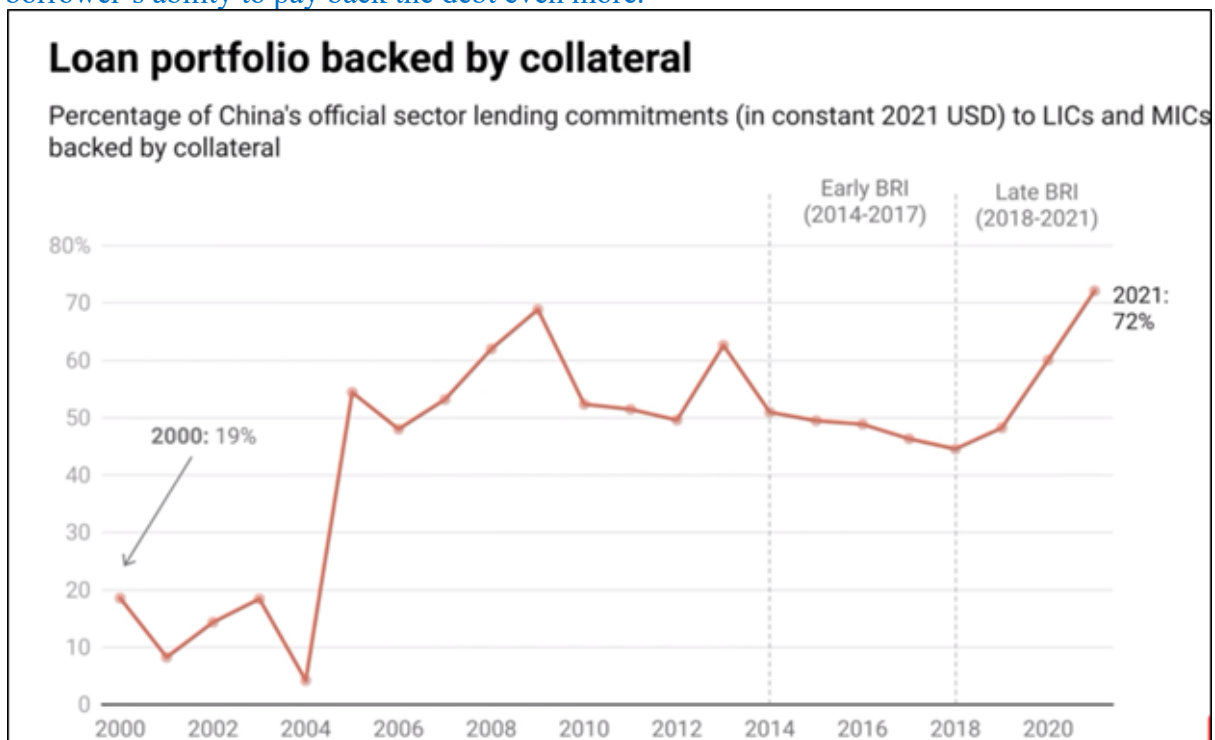
The BRI funding is a major discontinuity in Chinese spending, with a surge in lending over the past 20 years.

China has been increasing the loan currency lending being done in Chinese RMB (Yuan) to provide for debtor nations to pay back through increased trade with China, It has also been putting more into variable interest rates, so that China will be able to set the ongoing terms of engagement.



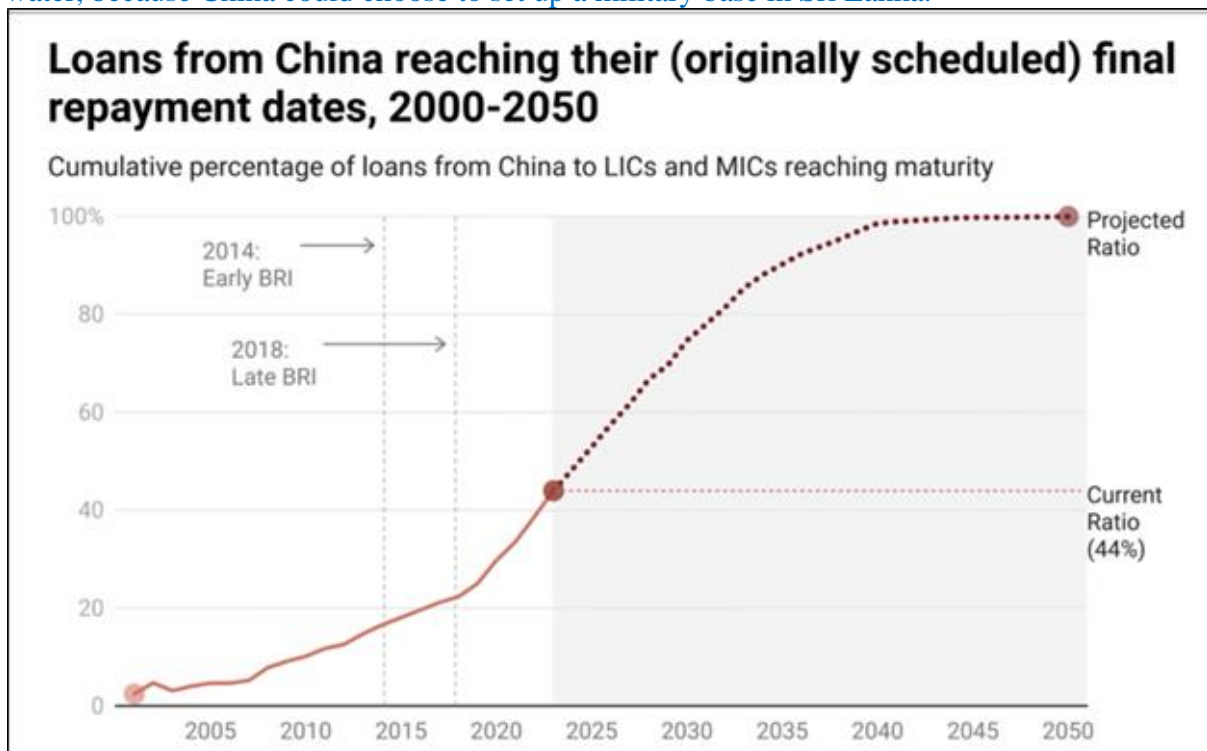
The rising ratio of loan currency lending being done in Chinese RMB (Yuan) plus the push to variable interest rates, puts China in control of the finances of 146 countries.

From a borrower's point of view, having a variable rate is a bad thing, because it is set by the lender. China also charges 'penalty rates', which have now gone to 1.8%. This weakens a borrower's ability to pay back the debt even more.



Almost three-quarters of the loans are backed by the infrastructure assets being constructed through the program: airports, canals, railways etc.

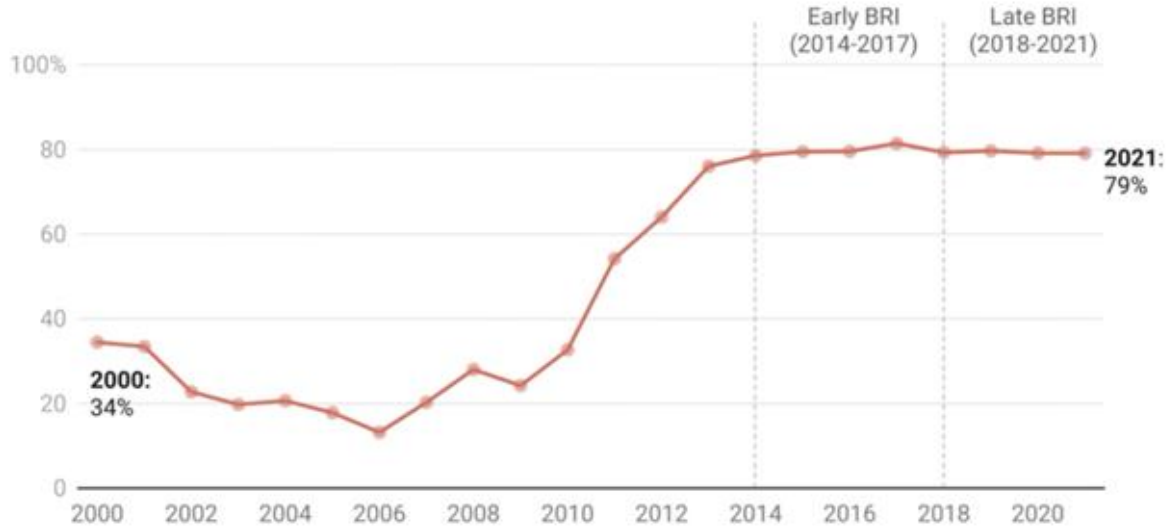
Host countries also run an increasing risk of having their collateral — e.g. a newly-constructed port — taken over by China if payments fall behind. China, for example, now has full control and ownership over a major port in Sri Lanka. This is giving heartburn to India, across the water, because China could choose to set up a military base in Sri Lanka.



The question of where the cash will come from that will enable the borrowing countries to repay the debt makes an assumption: that the projects have been completed on-time and are therefore generating the revenues that were anticipated. Now, 44% of all loans have reached their repayment date, and by 2050 all of the loan amounts will be due. China will be the only country that they can deal with to reschedule the loans.

Percentage of China's portfolio of loan commitments supporting countries in financial distress, 2000-2021

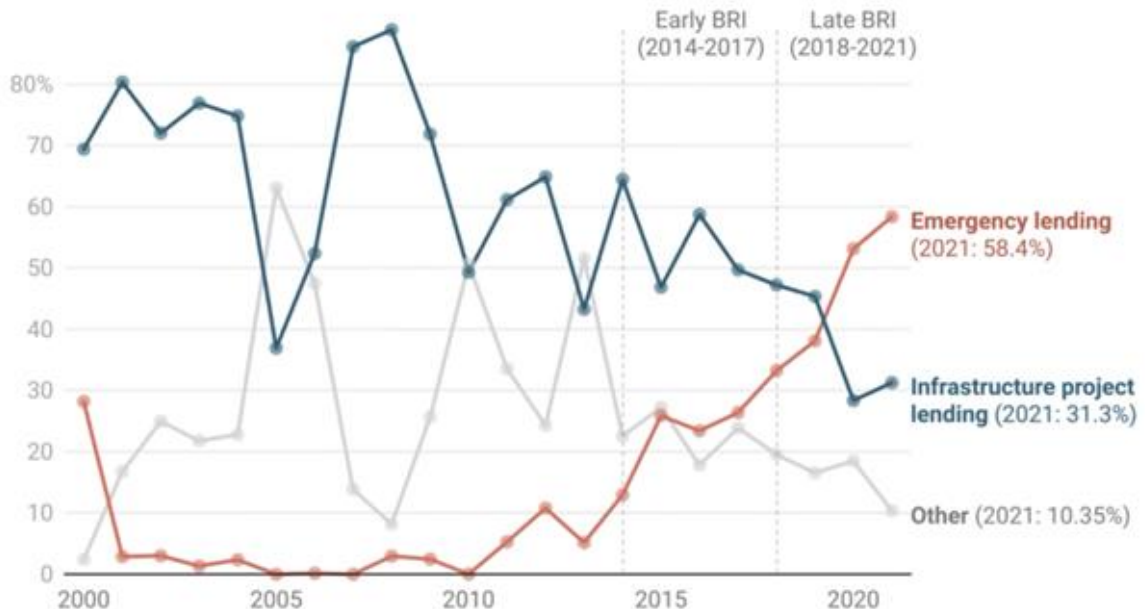
Proportion of cumulative loan commitments (in constant 2021 USD) from official sector institutions in China to low- and middle-income countries



Chinese creditors lent to high-risk countries (79%). Whether they meant to do that or not is unknown; when the BRI was being planned, China's economy was relatively healthful if fictional.

Composition of China's loan portfolio by financial instrument

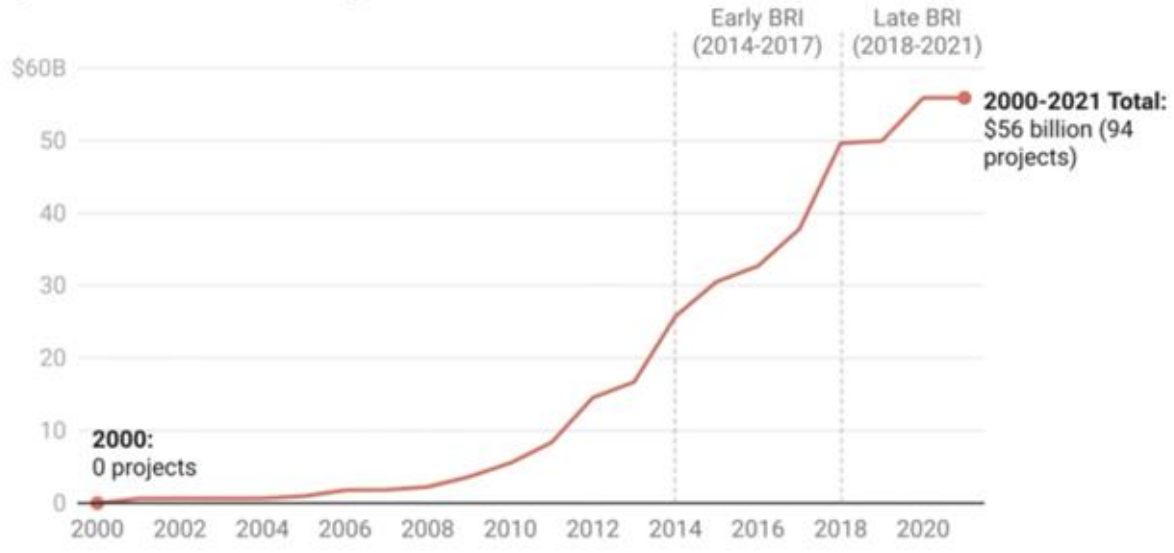
Percentage of official sector lending from China to low- and middle-income countries



The amount of emergency lending has risen to become the most common (58%) form of the portfolio...rather than infrastructure lending.

Cancelled or suspended Chinese infrastructure projects, 2000-2021

Cumulative monetary value of Chinese grant- and loan-financed infrastructure projects (constant 2021 USD billions)



Cancelled projects have been rising (94 projects).

Chinese state-owned creditors went on a lending spree, issuing thousands of loans for big-ticket infrastructure projects spread across the developing world. However, they did so without strong risk management guardrails in place. They lent to borrowers with bad credit ratings or no credit ratings (like Laos, Tajikistan, Zambia, South Sudan, Suriname, Zimbabwe, Pakistan, and Argentina); banked on borrowers being able to repay loans with the cash proceeds from natural resource exports (like Angola, Equatorial Guinea, Ecuador, Venezuela, Congo-Brazzaville, and Turkmenistan); and issued dollar- and euro-denominated loans to countries (like Russia, Belarus, Myanmar, Sudan, Iran, and Cuba) that would later be unable to transact in those currencies due to international sanctions.

Grown-ups did this.

China stepped out into the world with great fanfare, confident that it could buy its way to global influence and gratitude. Now, public approval rates for the BRI according to the World Gallop Poll are at 32%. China's desire to use its financial leverage to buy alignment with its policies has fallen flat: governing elites in BRI participant countries are taking foreign policy positions that are increasingly out of alignment with those of China.

When a promise like BRI goes sour, politicians and press remember.

Beijing's losses in the BRI program outnumbered its wins — by a significant margin.

If you were looking for a perfect example of ‘failed public policy’ you would not have to go further than China’s BRI program.

\$1.73-trillion, wasted. (Tell that to Laos or Indonesia)

How could anyone have foreseen that economic planners from a state-run economy where the government makes up numbers for prices and wages, would turn out so badly?

Shocking, I know.

This could be a good opening for some “Go Fund Me” projects.

In the meantime, I’ve got a dam to sell you.

But instead of just watching this slow-motion crash in horror from the sidelines, there is another approach for the West.

If we stopped looking at China as an opponent, and looked at it as a project on an evolutionary path to Western democracy, we could step in and offer to help finish these BRI efforts. (Oh really?)

The West has the financial resources, know-how and capacity to help out as equal partners. Just as important, we have the technical skill to bring these projects to completion on time. (This whole paragraph is a joke...)

If China would agree to re-orient the program to become a global infrastructure initiative, it would work out well for everyone.

And it would probably have side-effects for places like Taiwan, which would no doubt find itself off China’s “To Do” list...at least for the imminent future.

China could be a partner, not an enemy.

Ask Elon Musk.

OK, bad example. But you get what I mean.

Chinese executives are smart, open and ready to trade, in my experience. If we gave the country a chance, the entire structure would have to start moving our way.

It's worth considering, also has a declining population that will weigh on its growth. By contrast, the US—thanks especially to its traditional openness (albeit unwilling these days in some political quarters) to immigration—is set to have an expanding one for decades to come. That raises the prospect that, even if China eventually does surpass the US, it may fall back over time.^f

I think the above article is not in line with how most knowledgeable think is happening with the BRI. First of all, just compare the BRI with BBB, Biden's Bullshit on Building Infrastructure in the Global South. One may be, at worst, running into some delays, but the BBB remains as bullshit that has no money allocated to it at all, after all this time. One can be bullish or bearish about how economic projects will work out, and China has a response to such negativity:

China releases 10-year vision, action plan for BRI, focusing on green, digital development and supply chain

By GT staff reporters

Published: Nov 24, 2023 11:39 PM

China on Friday published a document entitled "Vision and Actions for High-Quality Belt and Road Cooperation: Brighter Prospects for the Next Decade," which specified the key areas and directions for Belt and Road cooperation in the next 10 years.

The China-proposed Belt and Road Initiative (BRI) has injected new growth momentum into the world economy and created vast room for global development. The initiative is believed to bring benefits to its partner countries through the newly released vision and action plan for BRI's development in the next decade, with some new focuses on green and digital development, as well as the stability and sustainability of supply chains.

From a China-proposed initiative to an international practice, the BRI, which celebrates its 10th anniversary in 2023, has become a well-received international public good and a platform for international cooperation.

Analysts noted that the new action plan comes in time for future development, as the next "golden decade" for BRI starts and the plan involves new industries and global concerns. New cooperation sectors such as innovation, the digital economy and green development should be explored to inject vitality and momentum into the BRI, they said.

New focuses

In addition to what the BRI has been devoted to in the past decade - policy coordination, infrastructure connectivity, unimpeded trade, financial integration and people-to-people ties - the Friday document added cooperation in new fields: green development, new forms and

models of digital cooperation, technology innovation, international cooperation in health, according to the document.

The new action plan will also focus on promoting the organic integration of trade and the latest technologies, including internet, Internet of Things, big data, artificial intelligence (AI) and blockchain.

As mentioned in the document, in the next decade, all parties will be encouraged to strive toward equal cooperation and mutual benefit, propelling BRI cooperation into a new phase characterized by high-quality development, according to the Xinhua News Agency.

There is vast opportunity for digital cooperation between China and BRI partner countries, as China has extensive experience in digital infrastructure construction and digital development. At the same time, China has a huge number of digitalized industries, Wang Peng, an associate researcher with the Beijing Academy of Social Sciences, told the Global Times on Friday.

"In terms of AI, China and BRI partners can strengthen cooperation and exchanges on AI governance and rules, and research and development of AI technology," said Wang.

As the high-quality development of the BRI enters a new stage, partner countries hope to strengthen technological cooperation with China to help their own development of intelligent manufacturing and digital economy, said Wang.

During a Friday press conference that outlined the new BRI action plan, Chinese officials also said that making industrial and supply chains more resilient and expanding the scope of free trade agreements will be a focus of BRI cooperation in the future.

Analysts and enterprises said that deepening international cooperation under the BRI will provide important impetus to the operations of the global industrial chain and supply chain.

From the perspective of the layout of the global industrial chains and supply chains, China is one of the key nodes, Hu Qimu, deputy secretary-general of the digital-real economies integration Forum 50, told the Global Times.

"What we are advocating is mutual benefit and win-win. Therefore, China plays a very important role in the development of global trade, as well as the stability of industries and supply chains. In particular, global trade protectionism has been prevalent in recent years, but China has always been committed to opening-up," said Hu.

In the past 10 years, the total import and export volume of China and BRI partner countries has reached \$19.1 trillion, and two-way investment has exceeded \$380 billion, according to statistics from the National Development and Reform Commission (NDRC), the country's top economic planner.

A large number of BRI cooperation projects in agriculture, energy, digital economy and other fields has been carried out, strongly promoting the upgrading of industrial structure and the optimization of industrial chains in various countries, said NDRC.

For example, a total of 79,900 China-Europe Railway Express trains have reached more than

200 cities in 25 European countries, becoming a "golden channel" for stabilizing the global supply chain.

Well prepared

The BRI has gradually progressed from an idea into actions and from vision to reality by yielding fruitful results to countries and people around the world. Now China aims to promote high-quality, sustainable and people-centered development of the BRI through joint efforts to bring brighter prospects for the next decade, Maya Majueran, director of Belt and Road Initiative Sri Lanka (BRISL), a Sri Lanka-based organization that specializes in BRI cooperation, told the Global Times on Friday.

"No doubt that BRI will bring more and more benefits to partner countries and wealth and strength to the Global South and change the geopolitical balance between East and West," said Majueran.

China is well prepared to promote the high-quality development of BRI in the future.

The third Belt and Road Forum for International Cooperation held in October produced 458 deliverables, and Chinese financial institutions established a financing window of 780 billion (\$109 billion) for BRI projects. All this will contribute to high-quality BRI cooperation, and provide strong momentum for connectivity, development and prosperity around the world, an official said on Friday at the press conference.

"It is precisely because of the financing provided by BRI that our large-scale projects can be implemented in BRI partner countries, enabling more countries to achieve energy transformations," Zhu Daocheng, vice president of JA SOLAR, a Chinese photovoltaic power firm that has an extensive presence in BRI countries, told the Global Times.

Zhu noted that more countries are expected to benefit from BRI in green development.

Open to all

"China has always been committed to working together to resolve the global development deficit and offer inclusive development that delivers benefits to all through BRI. Through this high-quality BRI vision, China highlights its responsibility for and contributions to the world, which not only focuses on benefits for the Chinese people, but also benefits the people of the world," said Majueran.

At present, China has signed more than 200 documents with 152 countries and 32 international organizations on cooperation under the BRI, covering 83 percent of the countries with which China has established diplomatic relations, according to official statistics.

The Gulf Cooperation Council has been one of the biggest beneficiaries of the BRI, Hazem Ben-Gacem, CEO of InvestCorp, the largest non-sovereign wealth fund private equity platform in the Middle East, told the Global Times.

"The mutually beneficial and win-win concept of the BRI is greatly appreciated and respected by investors from the Middle East," Ben-Gacem said.

Majueran noted that the West is jealous of BRI and accused China of engaging in "debt trap" diplomacy to discredit the initiative.

"A number of latest studies including Western studies show that there is no evidence of a so-called debt trap. The West proposed multiple initiatives to counter the BRI such as Partnership for Global Infrastructure and Investment, but they were all talk with no action," Majueran noted.

China's move is in stark contrast to the US-led Western world's "small yard, high fence" approach of walling itself off from global cooperation, Bao Jianyun, director of the Center for International Political Economy Studies at Renmin University of China, told the Global Times.

Since free speech is much heralded in the west, there will be no lack of adverse commentary on how bad China's economy is and how this will affect the BRI. For those of us who believe in China, there is no need to criticise this free speech. The time will come again when all of ASEAN will try to solicit BRI projects and our children will benefit from a region that will produce one of the highest growth rates in the world, with the help of China.

By:

Yeong, Wai-Cheong, CFA

Fintech Entrepreneur, Money Manager and Blogger

Un-Influencer in a World full of Hubris

The Boulevard Deal

When I negotiated the Boulevard deal, it was intended for shareholders who want to invest new capital in SGX. However, while those shareholders who have already committed new capital to the SGX project and have been contacted about what to do next, I believe that all shareholders (but not those who have redeemed) should have equal opportunity to have access to a good deal. As such, the following two pages describe the Boulevard deal. Every shareholder has equal opportunity to have access to the deal, written up in the attached PDF document.