Industry Perspective

Belt Road Initiative | June 2021







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Executive Summary

June 2021

China's Belt and Road Initiative (BRI) has been presenting great opportunities in promoting economic cooperation and connectivity with major markets across the world. On top of boosting infrastructure development and trades, multiple industries such as financial markets, consumer markets and real estate markets are also slated to benefit from this initiative.

Nonetheless, various developments across the world have resulted in challenges complicating the success of the initiative. These include escalating tensions between China and the United States (US) that have also overtime caused China's relationship with other countries such as Australia and India to deteriorate.

In this paper, we seek to provide an update on the recent events surrounding the escalation of China-US tensions. The paper will also highlight China's recent conclusion of its 14th Five-Year Plan as well as the developments of both projects and trades related to BRI.

For more information on the insights and banking solutions, please email: industry-insights@ UOBgroup.com



US-China relationship – Events observed from July 2020

2 Jul 2020

Hong Kong SAR enacted their Security Law, inciting condemnation from nations across the world include United States, European Union (EU), Canada, Japan

19 Jul 2020

US military used a series of big aircraft carrier operations to show allies that the US 'isn't about to turn its back on the hotly contested region'

21 Jul 2020

US officials charged two Chinese men who allegedly spied on US companies doing coronavirus research and got help from state agents for other thefts

6 Aug 2020

Trump administration released 2 executive orders citing national security concerns surrounding Wechat or Tiktok, any transactions by any person will be barred on these two applications. TikTok is in talks for a US acquisition

10 Aug 2020

In retaliation, China announces sanctions on a group of 11 Americans, including lawmakers and top executives of American Non-Governmental Organisations (NGOs)

29 Jul 2020

Beijing updates it's export control rules, meaning that TikTok's parent, ByteDance, may need a license to sell its technology to a US suitor

1 Oct 2020

US House passes bill to force companies to disclose Xinjiang-sourced materials

13 Nov 2020

Trump administration cracks down on US investments in Chinese firms including Huawei, China Telecom & China Mobile

15 Jul 2020

US places a sweeping travel ban on Chinese Communist Party members and their family members to the US

20 Jul 2020

Global banks in Hong Kong SAR combed through client lists for people at risk as the US prepares to move forward with sanctions against Chinese officials and possibly other individuals in the city

24 Jul 2020

- US ordered the closure of one of China's consulates in Houston, Texas by 24 July - a move described as "political provocation" by Beijing
- China retaliates with the closure of the US consulate in Chengdu

7 Aug 2020

Trump administration imposes economic sanctions on 11 current and former Chinese officials, including Hong Kong SAR's chief executive & mainland officials

15 Aug 2020

Google became the first to officially cut ties with Hong Kong SAR's police regarding data requests. Any further demands to retrieve users' information would require the diplomatic procedures

19 Sep 2020

US bans TikTok and WeChat from Google Play Store & Apple App Store

13 Oct 2020

China bans coal imports from Australia

23 Nov 2020

US issues a list of 89 Chinese firms that will be unable to access US technology exports due to military ties



Major developments in US-China relationship – Events from July 2020

11 Dec 2020

Bloomberg journalist detained in Beijing on suspicion of endangering national security

15 Dec 2020

China suspected of spying on US mobile subscribers via Chinese-owned Caribbean phone networks

7 Jan 2021

In reference to Nancy Pelosi's description of demonstrations in Hong Kong SAR, a Chinese foreign ministry called the Capitol Hill protests a "beautiful site to behold"

19 Jan 2021

US Secretary of State declares China's repression of Muslim Uyghurs as "genocide"

5 Feb 2021

Biden makes his first foreign policy speech, calling China "the most serious competition" to the US

25 Feb 2021

China starts informal talks with Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) countries, in membership pursuit

5 Mar 2021

As part of China's five-year plan, the country announces their focus on seven frontier technologies

13 Mar 2021

Uyghurs are being targeted by China on British soil "in an effort to intimidate them into silence"

23 Mar 2021

US, Canada & the EU announce a raft of sanctions on Chinese officials accused of "appalling" human rights violations against the Uyghurs

27 Mar 2021

Joe Biden and Boris Johnson have discussed the possibility of a "green alternative" to rival China's Belt and Road initiative

Note: 'China' refers to 'Mainland China'

14 Dec 2020

Reports of forced labor in Xinjiang's cotton picking industry leading to calls for Western nations to ban Xinjiang cotton

6 Jan 2021

Trump moves to ban Chinese software apps, including Alipay & WeChat Pay, due to "bulk data collection"

13 Jan 2021

US bans all cotton & tomato products from Xinjiang over slave labour links

2 Feb 2021

China warns the US to not interfere in China's sovereignty and territory affairs, including Hong Kong, Tibet and Xinjiang

24 Feb 2021

Biden orders a sweeping review of the U.S Supply China, pledging to build a "China-Free" technology supply chain

1 Mar 2021

Chinese Ministries also call for supply chain resiliency

7 Mar 2021

Beijing set to overhaul Hong Kong SAR electoral system. Premier Li Keqiang, addressing the National People's Congress (NPC), warns the world not to interfere

19 Mar 2021

US and Chinese officials engage in fiery exchanges at the start of the first-high level meeting between both countries since Joe Biden took office

24 Mar 2021

Nike and H&M face China backlash over Xinjiang cotton "concerns". Many Chinese have called for boycotts, celebrities have cut ties and e-commerce platforms have dropped H&M



Major developments in US-China relationship – Events from July 2020

8 Apr 2021

US Senate unveils the "Strategic Competition Act of 2021", a bipartisan plan, to counter global influence of China. The Biden administration also announced a new policy encouraging government ties with Taiwan officials.

15 Apr 2021

- Foreign ministry spokesman Zhao Lijian states that "Washington funded terrorists in Xinjiang" – one of Beijing's most direct disinformation attacks on the US to date
- Xinjiang cotton ban and forced labour claims pushed China to step up plans for domestic Better Cotton Initiative.

18 Apr 2021

China and the US have vowed to co-operate "to tackle the climate crisis", committing to "concrete actions in the 2020s" to reduce emissions in line with the aims of the 2015 Paris Climate Accord.

23 Apr 2021

- Australia cancels Victoria BRI projects and China vows response to Australia's cancellation of Belt and Road deals.
- The White House warns that the US lags behind China on developing clean technologies

25 Apr 2021

EU slams China's 'authoritarian shift' and broken economic promises, particularly with regards to opening up digital and agricultural markets, addressing steel overcapacity and reining in industrial subsidies.

29 Apr 2021

China-Africa trade leaps in first quarter on post-pandemic rebound.

4 May 2021

EU to crack down on Chinese state-subsidized companies. The proposed legislation would grant EU's antitrust authorities new powers to block foreign companies from making acquisitions in Europe or receiving public contracts if they are deemed to have benefited from government subsidies.

13 Apr 2021

US seeks China climate agreements ahead of Biden summit as unofficial delegation sent to support Taiwan.

16 Apr 2021

Xi Jinping rejected EU plans to develop a "Carbon Border Adjustment Mechanism" — aimed at ensuring that companies producing in countries with laxer climate rules face a carbon cost when exporting to Europe.

19 Apr 2021

President Xi Jinping hits out at US for 'bossing others around'. "International affairs should be handled by everyone," the Chinese president told the Boao Forum for Asia. "The rules set by one or several countries should not be imposed on others, and the unilateralism of individual countries should not give the whole world a rhythm," he said.

24 Apr 2021

- EU hits out at Beijing's actions in the South China Sea.
- Joe Biden plans to urge G7 to act on China's use of forced labour in Xinjiang.

28 Apr 2021

Africa should be mindful of China's growing role, top US diplomat Antony Blinken warns during his trip to Nigeria and Kenya.

30 Apr 2021

Tencent, Bytedance among companies reined in by China. Chinese regulators have called on 13 online platforms to adhere to tighter regulations in their financial divisions.



Major developments in US-China relationship – Events from July 2020

5 May 2021

New Zealand accuses China of human rights abuses but not genocide

7 May 2021

Joe Biden's team likely to proceed with Donald Trump's China investment ban

11 May 2021

- Taiwan fights to attend WHO meeting, but China says no.
 - Tesla puts brake on Shanghai land buy as US-China tensions weigh.
 - China threatens retaliation against Ericsson if Sweden does not drop Huawei 5G ban. Beijing is giving Sweden one last chance to reverse its ban on Huawei, a Chinese state media outlet said

13 May 2021

China offers infrastructure in bid to shore up relations with Central Asian neighbors. Foreign Minister Wang Yi met with his counterparts from Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan on Wednesday in Xian, pledging to deepen cooperation on vaccines and infrastructure

16 May 2021

Developing countries sign Huawei deals despite US warnings. Centre for Strategic and International Studies identified 70 deals in 41 countries between Huawei and governments or state-owned enterprises for these services from 2006 to April this year

18 May 2021

- US Senate advances the Endless Frontier Act, seeking up to US\$100 billion over five years for basic and advanced technology research and another US\$10 billion to create new technology hubs across the country to fund technology development to counter China
- European Parliament to vote on freezing China deal. The European Parliament is expected to pass a motion pushing to formally freeze the EU's investment agreement with China

6 May 2021

China 'indefinitely' suspends key "China-Australia Strategic and Economic Dialogue" with Australia

9 May 2021

China urges UN states not to attend Xinjiang event hosted by Germany, US and UK. "It is a politically-motivated event."

12 May 2021

- US, UK, Germany clash with China at United Nations (UN) over Xinjiang.
 Delegations used the event to call for immediate access to Xinjiang and an investigation by UN High Commissioner for Human Rights Michelle Bachelet.
- US-China: John Kerry warns against trusting China on climate

14 May 2021

Xiaomi's rare victory to remove itself from US blacklist could pave the way for other Chinese tech giants, according to an article by South China Morning Post

17 May 2021

US, EU to hold China to account on 'trade-distorting policies', especially regarding the global overcapacity in steel and aluminium

3 June 2021

US President Joe Biden signed an order amending bans on U.S. investments in Chinese companies, specifically naming 59 firms whom have ties to China's military or surveillance industry. The ban on new investments will take effect on Aug. 2 at 12:01 a.m. in New York. Investors will have one year to fully divest. Many of these names were already in BIS and DoD list.



Entity List* – A key feature signaling tension escalation

The blacklist, known as the Bureau of Industry and Service's Entity List, was frequently used by the Trump administration to crack down on China based on the following basis:



Specifically, US officials said they hoped the sanctions would have a wider impact by discouraging other countries from engaging with the companies through China's Belt and Road program, which builds infrastructure in developing nations.

The names added to the list are mostly big contractors involved in various global BRI projects: bridge construction, dams and digital infrastructure. Some of these have come under international criticism for saddling recipient countries with too much debt.

The US sanctions have also created diplomatic tensions between China and various participating BRI countries. These souring relationships are likely to continue to complicate China's investments in these projects, providing an opportunity for Japanese, Korean and Australian contractors to re-expand their outreach into these countries.

Entity List	Military End-User List	Unverified List
Names in the list are subjected to licensing requirements and supplemental policies.	 Determined by the US government as "military end users", names in the list are subjected to licensing requirements and supplemental policies. 	 Parties whose bona fides BIS has been unable to verify. No license exceptions may be used for exports, re-exports, or transfers (in-country) to unverified parties. A statement must be obtained from such parties prior to

Bureau of Industry and Security (BIS) maintains three lists of foreign names

Note: 'China' refers to 'Mainland China'

shipping items not subject to a license requirement.

^{*}The Export Administration Regulations (EAR) contains a list of names of certain foreign persons – including businesses, research institutions, government and private organisations, individuals, and other types of legal persons – that are subject to specific license requirements for the export, re-export and/or transfer (in-country) of specified items. These persons comprise the Entity List, which is found in Supplement No. 4 to Part 744 of the EAR. On an individual basis, the persons on the Entity List are subject to licensing requirements and policies supplemental to those found elsewhere in the EAR. Source: https://www.bis.doc.gov/index.php/policy-guidance/lists-of-parties-of-concern/entity-list



Blacklist of
Chinese names
continue under
the Biden
administration
with a ban of new
investments on

Chinese names in an amended order being the latest, announced in June 2021

Separate list maintained by Department of Defense

Separately, the Department of Defense (DoD) also maintained a list of 'names of additional "Communist Chinese military companies" operating directly or indirectly in the US in accordance with the statutory requirement of Section 1237 of the National Defense Authorisation Act for Fiscal Year 1999, as amended.'*

The list, which includes several large state-owned enterprises in China, does not impose sanctions or export restrictions on the listed companies, although some of the companies are separately included on the Bureau of Industry and Security's (BIS) Entity List. The US Department of Defense advised exporters to use the list as a due diligence tool to identify customers and end users that may be subject to BIS's recently expanded military end user and end use export controls. Under those rules, US and non-US companies require licenses to ship certain items subject to US control rules to military end users or military end uses in China.

US President Joe Biden banned new investments on 59 Chinese names in an amended order

On 3rd June 2021, US President Joe Biden signed an order amending bans on US investments in Chinese companies, specifically naming 59 firms whom have ties to China's military or surveillance industry. The ban on new investments will take effect on 2nd August 2021 at 12:01 a.m. in New York and investors will have one year to fully divest.

Several of the companies in Joe Biden's order were already in both the BIS and DoD lists, and these include China's biggest telecommunications companies as well as chipmakers and defense companies. Under the order, the investment prohibitions will apply to subsidiaries of companies only if they are listed by the Office of Foreign Assets Control.

^{*}Extracted from https://www.defense.gov/Newsroom/Releases/Release/Article/2472464/dod-releases-list-of-additional-companies-in-accordance-with-section-1237-of-fy/



China's 14th Five Year Plan – A blueprint for 2021-2025

The 14th Five-year plan is a blueprint meant to set China's economic and social policy vision for the period from 2021-2025. The plan was drawn at a time when the world is undergoing profound changes, and it thus stresses the adoption of a long-term perspective alongside keeping up with current trends and promoting extensive knowledge collection to push industries and predict new and upcoming challenges.

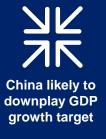
China 14th Five-Year Plan: Key Takeaways



- Domestic market as mainstay but will focus on further opening-up, thus allowing domestic and foreign markets to boost each other.
- · Dispels concerns that China will shift its focus from open-up to domestic market.



- Xi underscored creating new growth momentum through
 - Scientific and technological innovation.
 - Vigorously enhancing the capability to conduct innovation independently.
 - Achieving breakthroughs in key and core technologies as soon as possible for global influence.



- Scrap the specific target since China is set to drop the quantity-oriented growth model and focus on **structural and quality optimisation** amidst the "toughest years ahead".
- Statement focused on "making China a modern country and matching its GDP-per-capita with moderately well developed and medium-advanced countries in 15 years, which hints at a tripling or quadrupling of the current number."

Source: SCMP, Xinhua Net, Global Times, Expertise Asia



National People's Congress (NPC)'s Two Sessions - Micro targets introduced

Concluded in March 2021, the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) convened for a week at the Great Hall of the People in Beijing for *lianghui* – or 'Two Sessions'. The session concluded the national socio-economic and political priorities for 2021 but also approved China's 14th Five-Year Plan and the longer-term goals for 2035.

A slew of micro targets were in focus.



Deepening multilateral, bilateral and regional economic cooperation

China plans to promote BRI cooperation for outbound Chinese investments alongside expanding and implementing trade pacts

Source: UOB Analysis

Note: 'China' refers to 'Mainland China'

Promotion of trading sector and foreign investment

- Preparing to assist SME firms to expand whilst facilitating smooth international logistics
- Welcoming foreign investors to expand their investments in China



China: Innovation and supply chain security are keys to the future

With the impacts of the pandemic and trade tensions, China's 14th Five-Year Plan alongside the National People's Congress announcements have provided a glimpse into the country's two growing avenues to tap on.

E-Commerce Industry



China's so-called "Super Apps" have propelled a demand for innovation alongside integration and collaboration which many in the West lack.

Supply Chain Security



China's 14th Five Year Plan called for technology goals focused on self reliance, particularly addressing the weaknesses in the supply chain.

China's internet giants, The BAT Group (Baidu, Alibaba and Tencent), represent

42%

of Venture Capital investments in China, signaling their drive for innovation and integration moving into this new post – pandemic economy period.

E-commerce

The e-commerce business in China has been booming over the past decade. Moving from a 0.6% market share of retail transactions in 2005 to 42.4% in 2016, the country is the clear front runner in the technology frontier of the e-commerce market. This is primarily due to the commitment seen by both the government and the private sector in innovating digital structures to further the growth of the market.

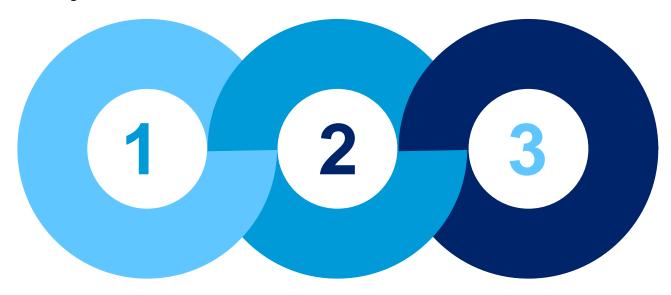
China's internet giants, The BAT Group (Baidu, Alibaba and Tencent), represent 42% of Venture Capital investments in China, signaling their drive for innovation and integration moving into this new post – pandemic economy period. This will be further enhanced by the nationwide expansion of 5G, which is estimated to boost the e-commerce sector by an additional US\$12 billion in the next three years.



Supply Chain Security

COVID-19 and escalating tensions between many Western nations and China has highlighted the countries' over-reliance on global supply chains, revealing the vulnerabilities of deep trade integration. Xi Jing Ping's 14th Five Year Plan, has detailed the necessities of a "Dual Circulation" strategy to improve the resilience of Chinese Supply Chains. The focus is on broadening the ecosystem of local firms in key industries and spurring innovation in sectors that rely on foreign production.

Various goals include:



Pushing for a self sufficient AI ecosystem, preventing future supply chain shocks Targeting subsectors in manufacturing hubs like Hubei and Zhejiang to climb the value chain Appointing "supply chain heads" to coordinate and manage supply chain operations in local districts

As such, supply chain management platforms are beginning to see popularity, predominantly aiming to provide financing to SMEs and connecting them with large corporate customers to further integrate the local eco-system

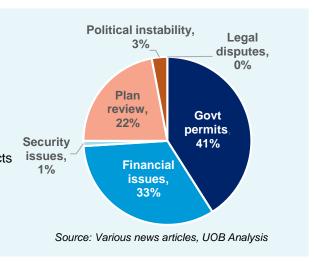


BRI amidst COVID-19: Project updates

Where projects were concerned, around 15 overseas BRI projects reportedly ran into some form of pull-back over 2020. While some were affected by delays due to COVID-19, others were as a result of diplomatic tensions with China e.g. Australia and India. A total of 4.2% of total BRI projects were set-back over the year.

Project Status	Number	Value, US\$
Delayed	22	14.6bn
Cancelled	14	28.68bn
On hold	57	89.44bn
Total BRI Projects		~3,160bn

ASEAN projects were relatively untouched by the effects of COVID-19 and political factors. The only notable project to be terminated was Malaysia's Melaka Gateway, though it should be noted that the project had been plagued with geopolitical issues for years.



Legend

Govt permits – US\$53.8bn, 41% Financial issues – US\$43.5bn, 33%

Security issues – US\$1.9bn, 1% Plan review – US\$29.1bn, 22% Political instability – US\$3.8bn, 3% Legal disputes – US\$400mn, 0.1%

Country	BRI Projects	Value USD (Bn)	Status
East Coast Rail Link (ECL)		10.7	2024, Ongoing
Malaysia	Melaka Gateway	8.4	terminated
	Gemas-Johor Baru electrified double-tracking project (EDTP)	2.18	2021
Indonesia	Jakarta-Bandung High Speed Train	5.5	2021
indonesia	Sumsel-5 power plant	0.3	Completed (2016)
Thailand	Bangkok-Nong Khai high-speed railway	5.7	2023
inaliand	Cloud Center in Eastern Economic Corridor (Alibaba, HW, JD)	0.025	Ongoing
Vietnam	Cat Linh – Ha Dong metro line	0.9	Completed (2018)
Singapore	Smart Cities Initiative: Cloud and Al Innovation Lab (HW)	>10mn'	Ongoing

Source: Various news articles, UOB Analysis Note: 'China' refers to 'Mainland China'



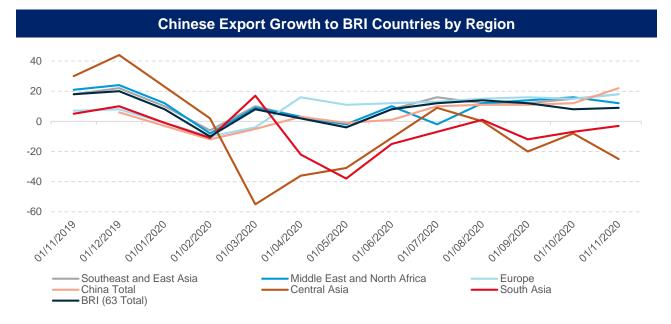
Trades between China and BRI nations

COVID-19 has greatly affected the trade patterns between China and many BRI nations. Southeast and East Asia remain the most resilient in these turbulent times.

Exports

- Chinese export levels were volatile amid the pandemic with declines to certain BRI partners more severe
- As a whole, exports to the 63 countries over 11M20 were still 3.8% higher than in 2019
- ASEAN remained as China's most resilient trading partner

Chinese Export to BRI Countries by Region 400000 350000 300000 250000 200000 150000 100000 50000 0 Southeast and East Central Asia Middle East and North South Asia Europe Asia Africa ■Jan - Nov 2019 Jan - Nov 2020



Source: ODI

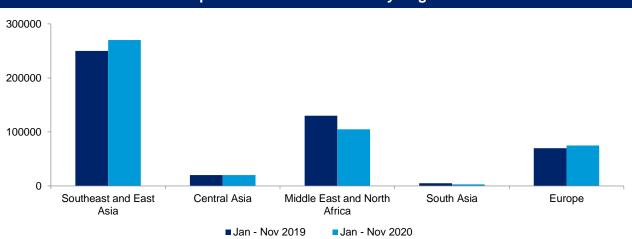
Note: The original block of BRI countries comprises of 64 including China, as defined by World Bank



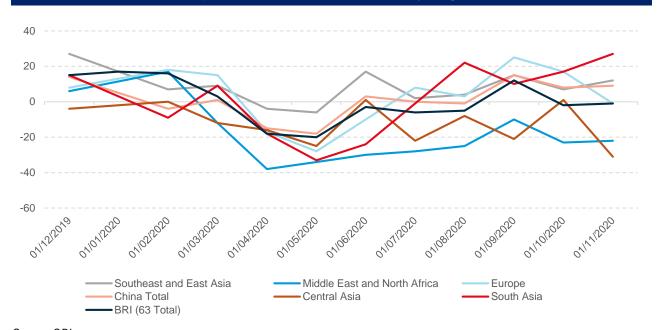
Imports

- Chinese import growth has been slower to recover than exports, and imports from BRI countries has been lacklustre overall import growth was 2.7% lower vs. 2019
- Imports from Southeast/East Asia and Europe began to see gains over recent months

Imports from BRI Countries by Region



Import Growth to BRI Countries by Region



Source: ODI

Note: The original block of BRI countries comprises of 64 including China, as defined by World Bank



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