

Industry Perspective

Belt Road Initiative | June 2021

Belt and Road Initiative - Recent developments

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Executive Summary

June 2021

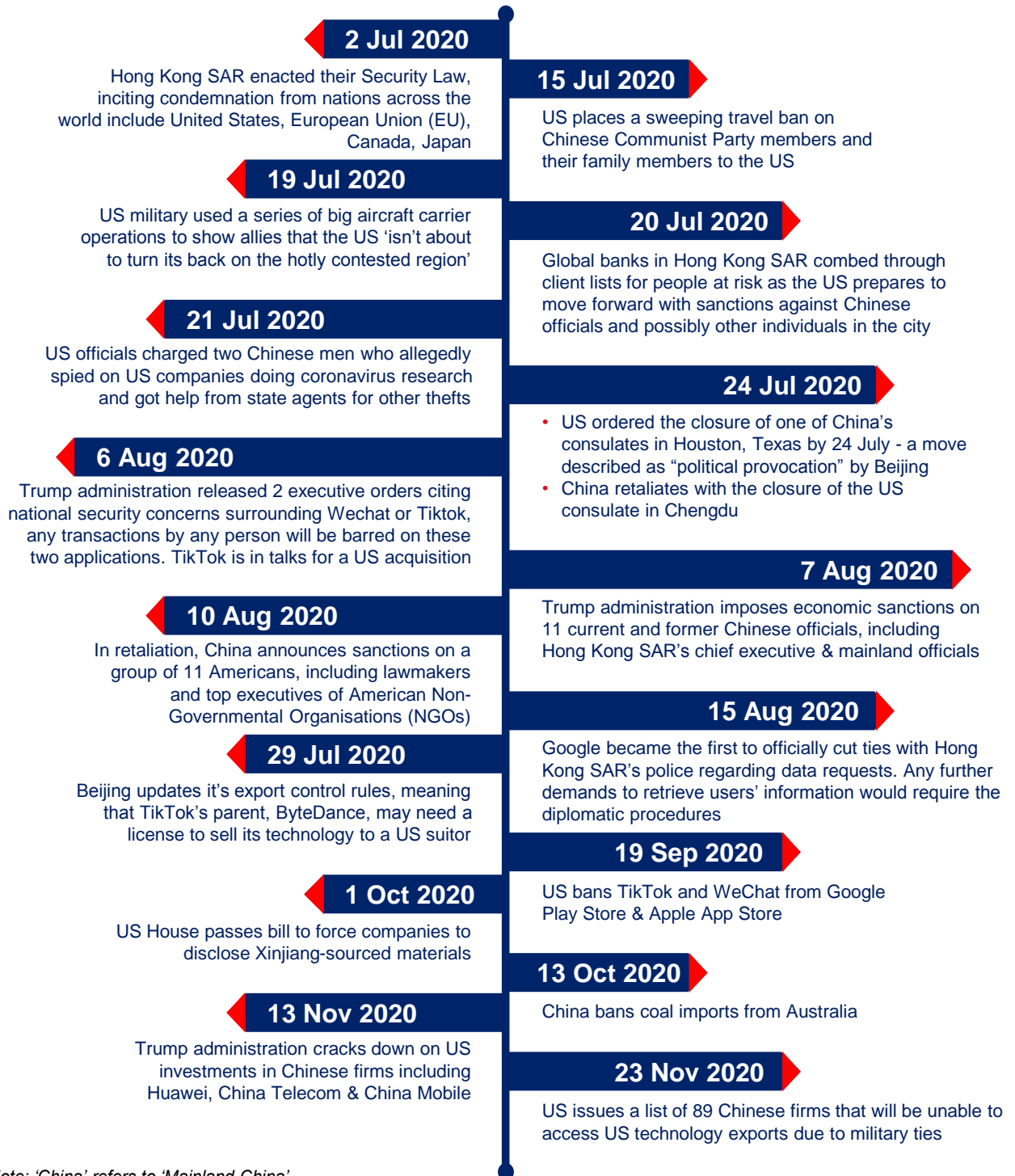
China's Belt and Road Initiative (BRI) has been presenting great opportunities in promoting economic cooperation and connectivity with major markets across the world. On top of boosting infrastructure development and trades, multiple industries such as financial markets, consumer markets and real estate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

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US-China relationship – Events observed from July 2020



Note: 'China' refers to 'Mainland China'

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



Note: 'China' refers to 'Mainland China'

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.

13 Apr 2021

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

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.

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.

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.

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.

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

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.

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.

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.

29 Apr 2021

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

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.

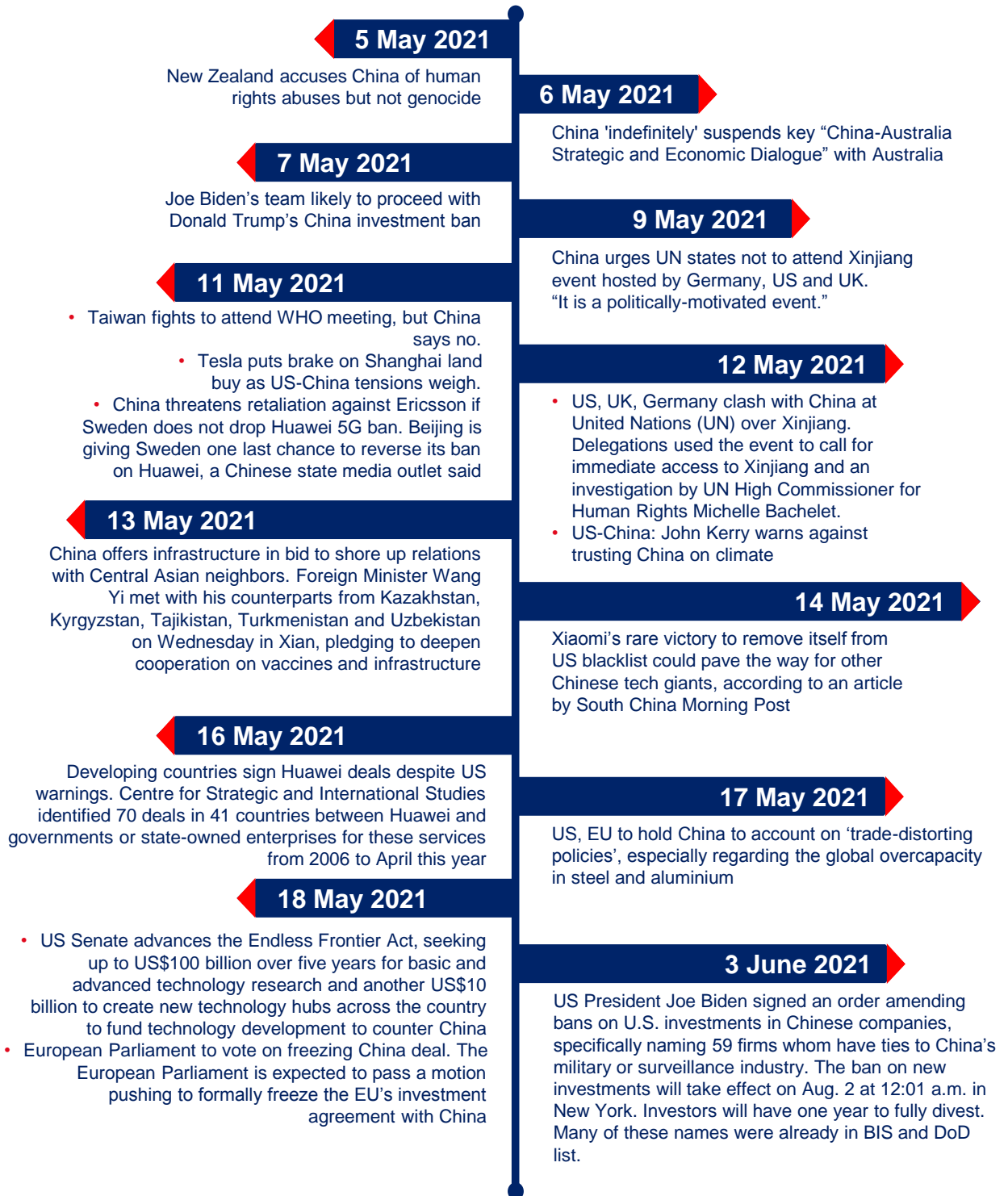
4 May 2021

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.

Note: ‘China’ refers to ‘Mainland China’

Major developments in US-China relationship

– Events from July 2020



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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:

- Help built military islands in the South China Sea
- Threatened US national security or foreign political interest – specifically Huawei and all its affiliates
- Allegedly engaged in human rights violations in Xinjiang

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.

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

Entity List	Military End-User List	Unverified List
<ul style="list-style-type: none"> Names in the list are subjected to licensing requirements and supplemental policies. 	<ul style="list-style-type: none"> Determined by the US government as “military end users”, names in the list are subjected to licensing requirements and supplemental policies. 	<ul style="list-style-type: none"> 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 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>*

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

59

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/>

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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



High on agenda
→ Open dual
circulation

- 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.



Innovation
as key; focus
on high-tech
independence

- 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.



China likely to
downplay GDP
growth target

- 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

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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.

Growth target set above 6%

Target is below economist’s forecasts of 8.4% as the government shifts its focus to long term challenges such as reducing dependencies on foreign partners



Securing the supply chain

- Promoting a more self-supported industrial supply chains
- Boosting the quality of Chinese manufacturing



Creation of 11 million new urban jobs

Up from target of 9mn last year and actual growth of 11.9mn



Key micro targets

Enhancing environmental improvements

Expansion of clean energy sources and promote the development of green solutions, in terms of technologies, equipment and products



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



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

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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.

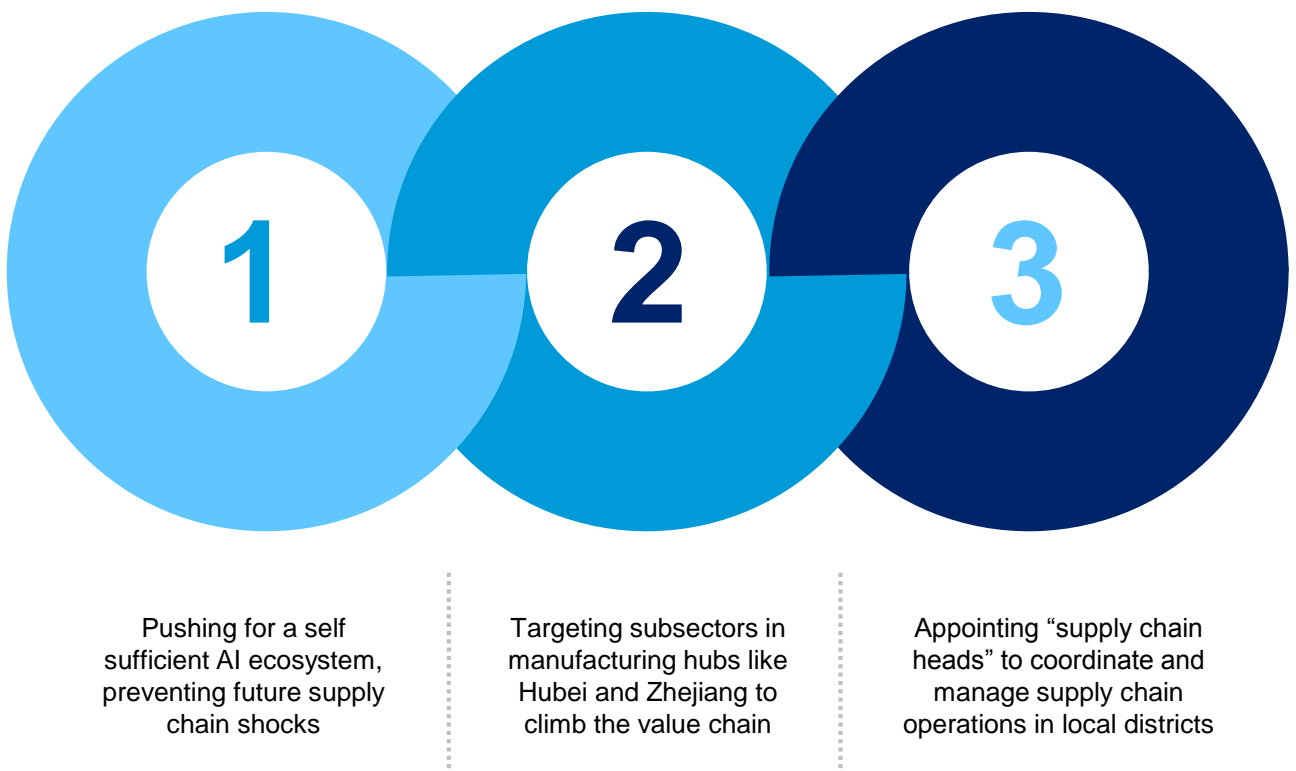
China’s internet giants, The BAT Group (Baidu, Alibaba and Tencent), represent 42% of Venture Capital investments in China, signaling their drive for innovation and integration moving into this new post – pandemic economy period. This will be further enhanced by the nationwide expansion of 5G, which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

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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:



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

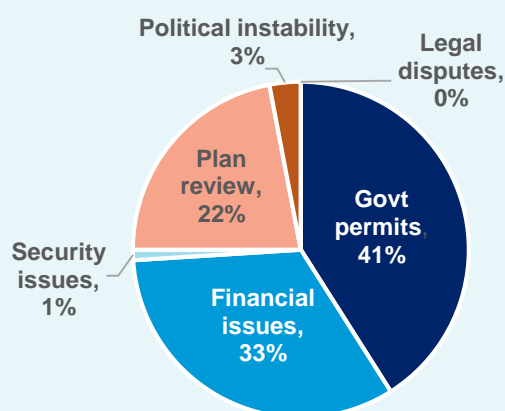
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BRI amidst COVID-19: Project updates

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.



Source: Various news articles, UOB Analysis

Legend

■ Govt permits – US\$53.8bn, 41%	■ Security issues – US\$1.9bn, 1%	■ Political instability – US\$3.8bn, 3%
■ Financial issues – US\$43.5bn, 33%	■ Plan review – US\$29.1bn, 22%	■ Legal disputes – US\$400mn, 0.1%

Country	BRI Projects	Value USD (Bn)	Status
Malaysia	East Coast Rail Link (ECL)	10.7	2024, Ongoing
	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
	Sumsel-5 power plant	0.3	Completed (2016)
Thailand	Bangkok–Nong Khai high-speed railway	5.7	2023
	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 AI Innovation Lab (HW)	>10mn'	Ongoing

Source: Various news articles, UOB Analysis

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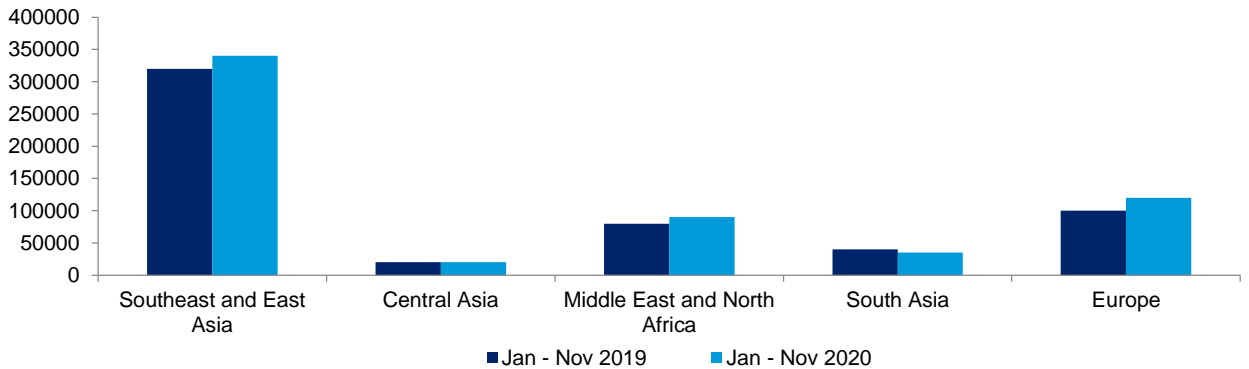
Trades between China and BRI nations

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.

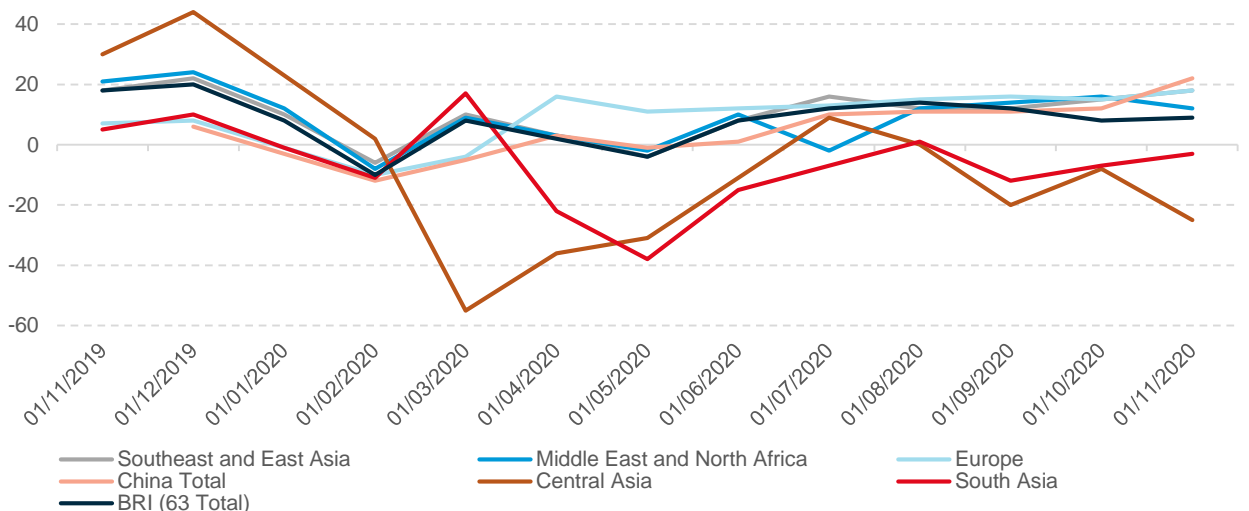
Exports

- 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



Chinese Export Growth to BRI Countries by Region

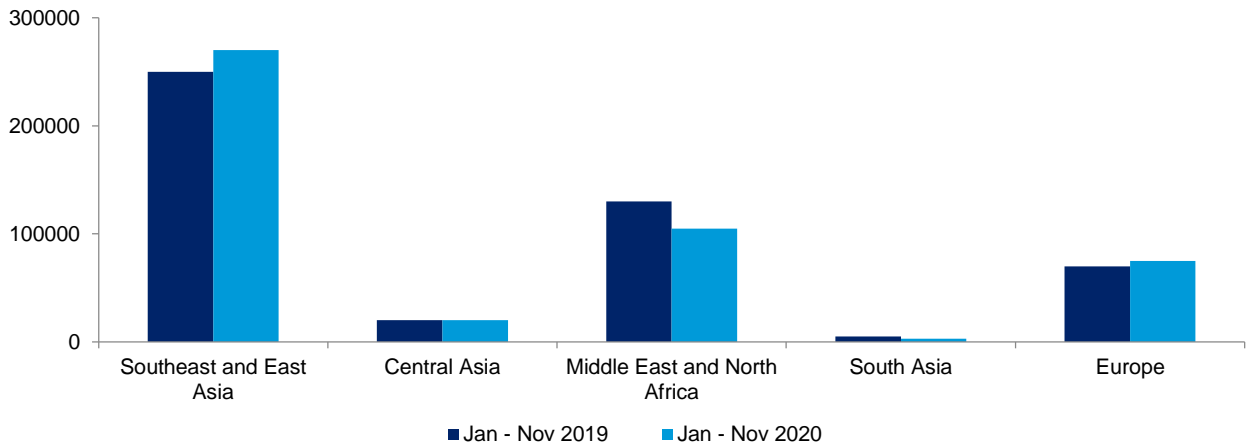


Source: ODI
 Note: The original block of BRI countries comprises of 64 including China, as defined by World Bank
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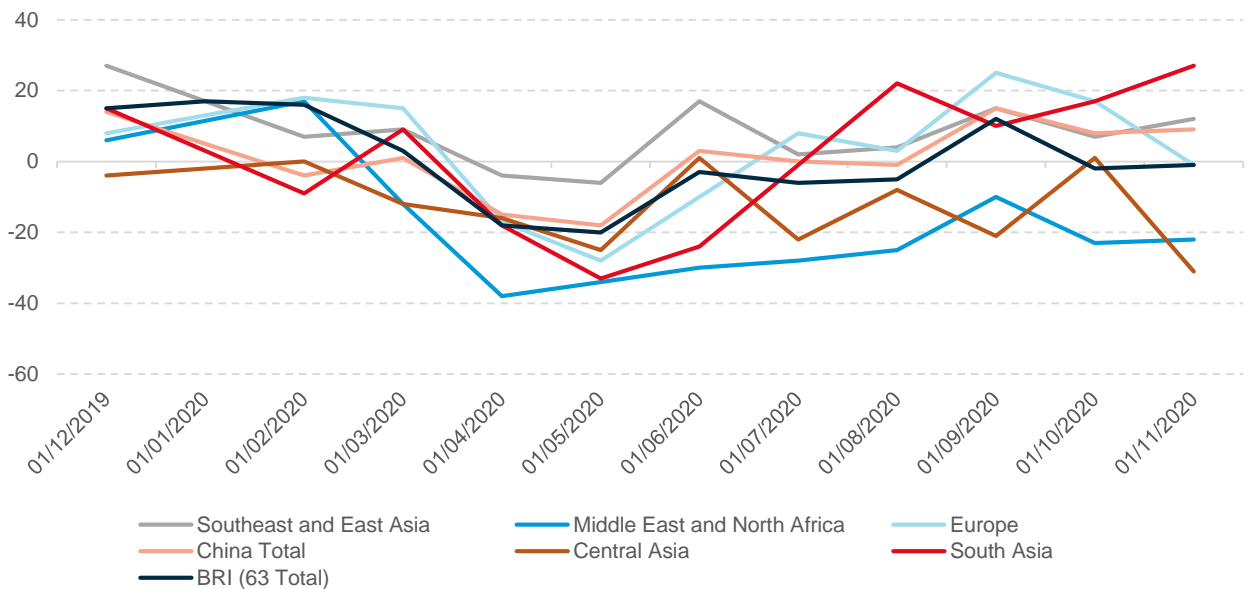
Imports

- 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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