

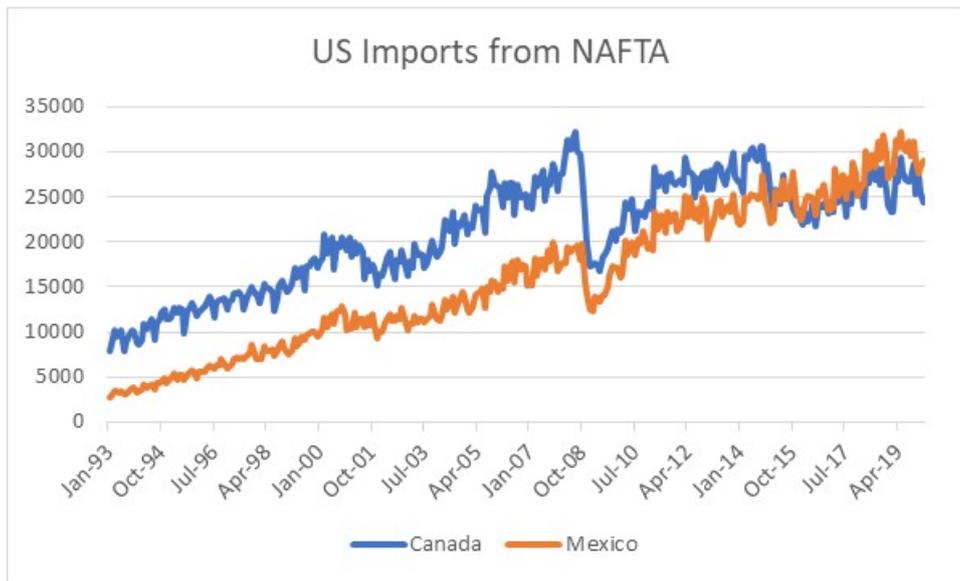
IS CHINA'S BELT ROAD INITIATIVE WORKING?



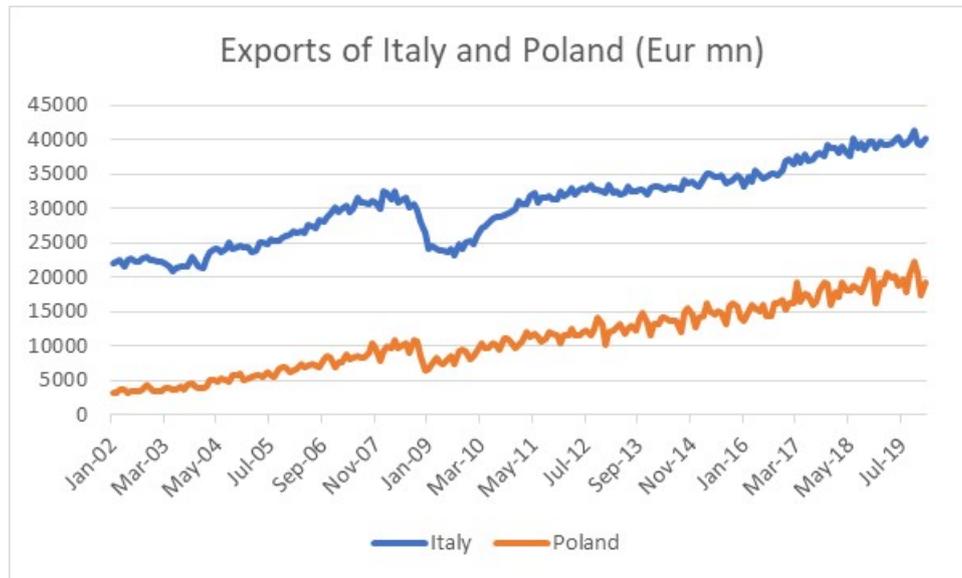
Russell Clark's
Market Views

"If China can continue to develop export markets through free trade agreements and the BRI investments, it could potentially double its total trade to population ratio."

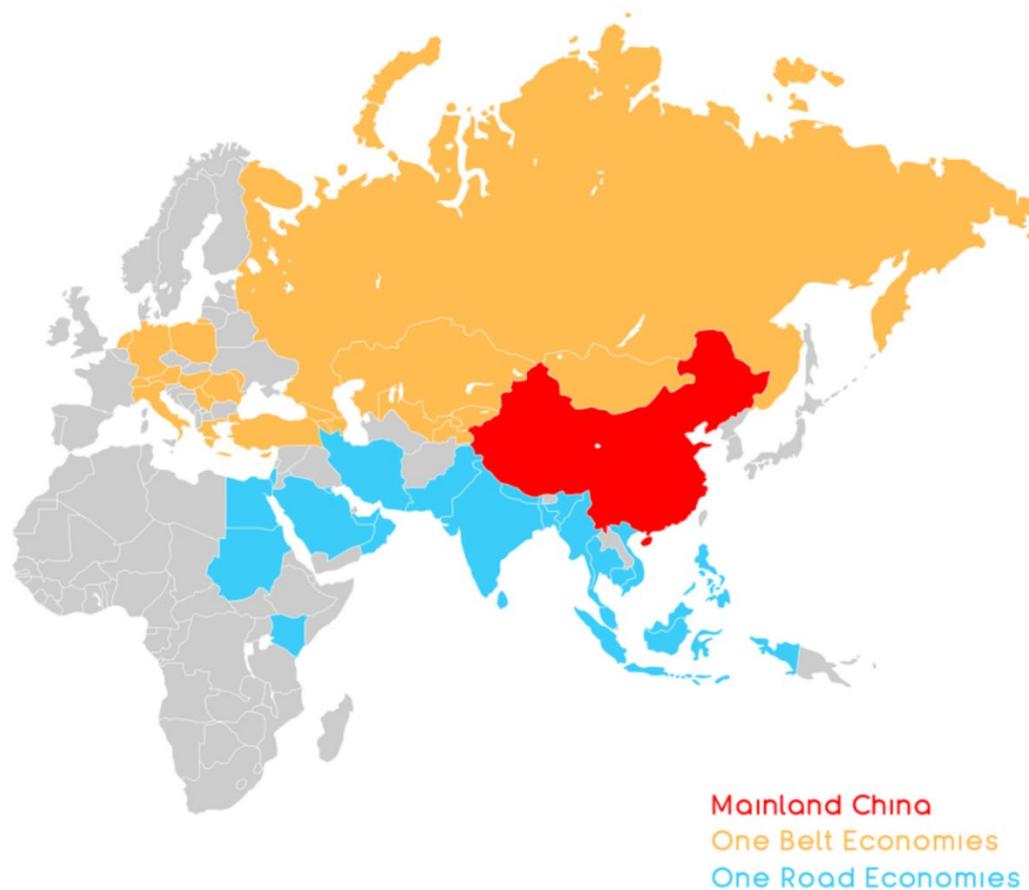
China's Belt Road Initiative (BRI) bears some resemblance to the North American Free Trade Agreement (NAFTA) and the accession of Central European countries to the EU. In both of these arrangements larger wealthy economies agreed to harmonisation of standards, to help promote trade and investment. NAFTA came into force in 1994. Mexican export to the US has grown substantially, to the degree that is a bigger exporter to the US than Canada.



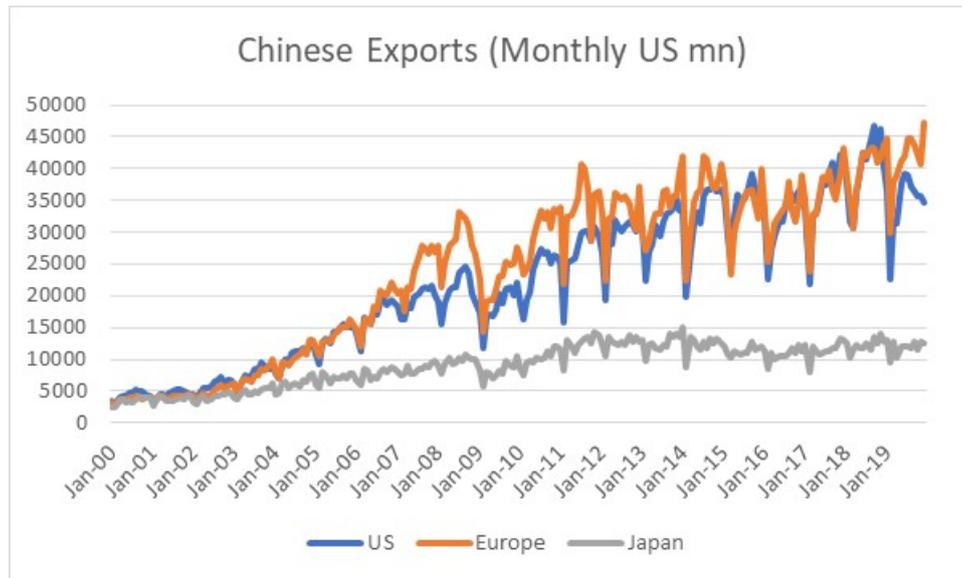
2004 saw the enlargement of the EU, with a number of central European countries joining the EU. The largest of these countries was Poland. In 2002, Polish exports were only 15% of Italian exports. By 2019, there were 50%.



The BRI is a controversial program launched by the Chinese government in 2013. The Belt of the program refers to investment in land infrastructure such as road and rail. Confusingly, the Road part of the program refers to the strengthening maritime infrastructure, such as ports. The initial plan is shown below.



The Chinese BRI program has been forced on to the Chinese by stagnating exports to developed nations. Chinese exports grew rapidly from 2000 to 2011 but have broadly plateaued at that level. It has also become clear that growing exports to the US is now politically fraught.



What is the scope for the BRI to be successful? At first glance, it would seem limited. China is already one of the top trading nations in the world, with total trade to GDP ratio (total trade is exports + imports) the highest of the large economies. We have used CIA World data book for trade data for consistency.

	Exports USD bn	Imports USD Bn	Total Trade USD bn	Population mn	GDP	total trade/GDP
US	1576	2352	3928	329	21439	18.3%
Europe	2587	1895	4482	500	18705	24.0%
China	2157	1731	3888	1402	14140	27.5%
Japan	683	625	1308	125	5154	25.4%

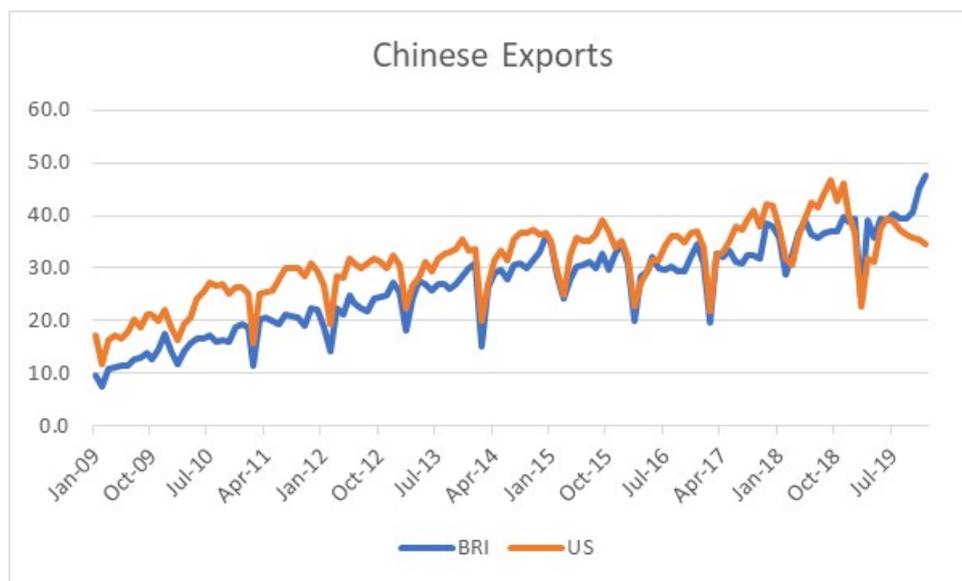
Another way to look at trade potential is to look at it from a per person, population (Pop) basis. On this basis, both China and BRI countries have a vast opportunity to grow trade. China could double trade from here, and only be at Mexican or Thai trade to Pop levels. The very low levels of trade to Pop in India, Pakistan and Bangladesh particularly stand out.

	Exports USD bn	Imports USD Bn	Total Trade USD bn	Population mn	Total Trade/Pop.
China	2157	1731	3888	1402	2.8
India	355	426	781	1361	0.6
Europe	2587	1895	4482	500	9.0
US	1576	2352	3928	329	11.9
Indonesia	168	149	317	266	1.2
Pakistan	21	48	69	219	0.3
Bangladesh	41	42	83	168	0.5
Mexico	406	417	823	127	6.5
Japan	683	625	1308	125	10.5
Philippines	63	92	155	108	1.4
Vietnam	214	211	425	96	4.4
UK	436	602	1038	66	15.7
Thailand	228	190	418	66	6.3
Korea	577	457	1034	51	20.3
Canada	433	443	876	37	23.7

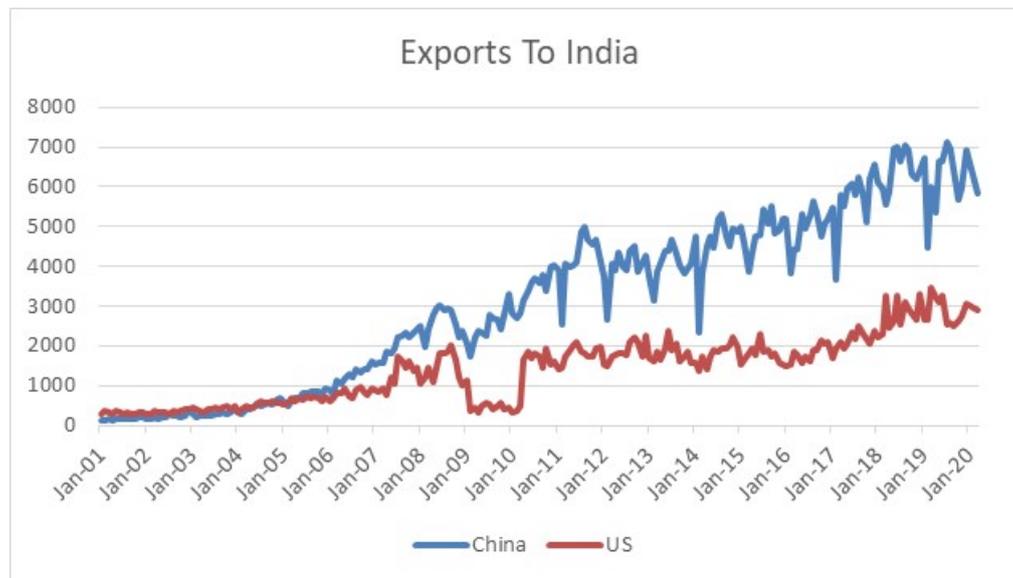
China has already made some important institutional changes to promote trade development with BRI nations; 2010 saw the implementation of an Association of Southeast Asian Nations (ASEAN)-China free trade area. China has launched an Asian Infrastructure Investment Bank (AIIB) – which it lists many projects in India, Pakistan and Bangladesh it has funded. In 2009, 10% of all Chinese exports were to BRI nations. Today it is 20% and it’s noticeable that this has grown even as exports have flatlined in the rest of the world (ROW).



Perhaps even more striking is that Chinese exports to the BRI area, have recently overtaken the US. There is likely some distortion driven by US tariffs, but nevertheless it is a significant shift in trade flows.



From a strategic view, Chinese investment into infrastructure and trade ties has also yielded a substantial advantage. The US and China used to have roughly equivalent levels of exports to India in 2008, while China now exports twice as much as the US.



If China can continue to develop export markets through free trade agreements and the BRI investments, it could potentially double its total trade to population ratio to near Mexican levels, but would still be below levels seen in Europe, US and Japan. To reach those levels it would require a large increase in trade to countries like India, Pakistan, Bangladesh, Indonesia, and the Philippines. This may seem farfetched, but the success in trade of countries like Poland and Mexico show that it is possible. Stagnating trade volumes over the last ten years have reinforced an idea of secular stagnation. The BRI offers a roadmap out of trade stagnation.

INFORMATION

Issue Date: 16th April 2020

Source: Bloomberg, unless otherwise stated

Investor Relations: Samantha Dunn

Email: info@russellclarkim.com

Telephone: +44 (0)20 7838 7580

Website: www.russellclarkim.com

Business and registered address: Russell Clark Investment Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom. Registered in England and Wales - Company number: 04034280

DISCLAIMER

This Market View has been prepared and issued by Russell Clark Investment Management Ltd (the "Firm") authorised and regulated by the Financial Conduct Authority. It has been approved as a financial promotion by the Firm and as such is intended **for professional clients and eligible counterparties only and is not intended for retail client use**. It is not intended for distribution to any country where such distribution or use would be contrary to local law or regulation.

This Market View is provided for information purposes only and should not be regarded as an offer to buy or sell any investments or related services that may be referenced herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The view expressed in this Market View are the views of the portfolio manager at time of publication and may change over time. Nothing in this Market View constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. Past performance is not indicative of future performance. The price of investments can go up as well as down and can be affected by changes in the rates of exchange. The information contained in this document is strictly confidential and is intended only for the use of the person who has been provided the Market View by the Firm. No part of this Market View may be divulged to any person, distributed, resold and or reproduced without the prior written permission of the Firm.

Where "forward looking" information, including estimates, projections and subjective analysis and judgement are provided no representation as to the accuracy of such projections or estimates or that they may be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions.