

# Dragoman Digest

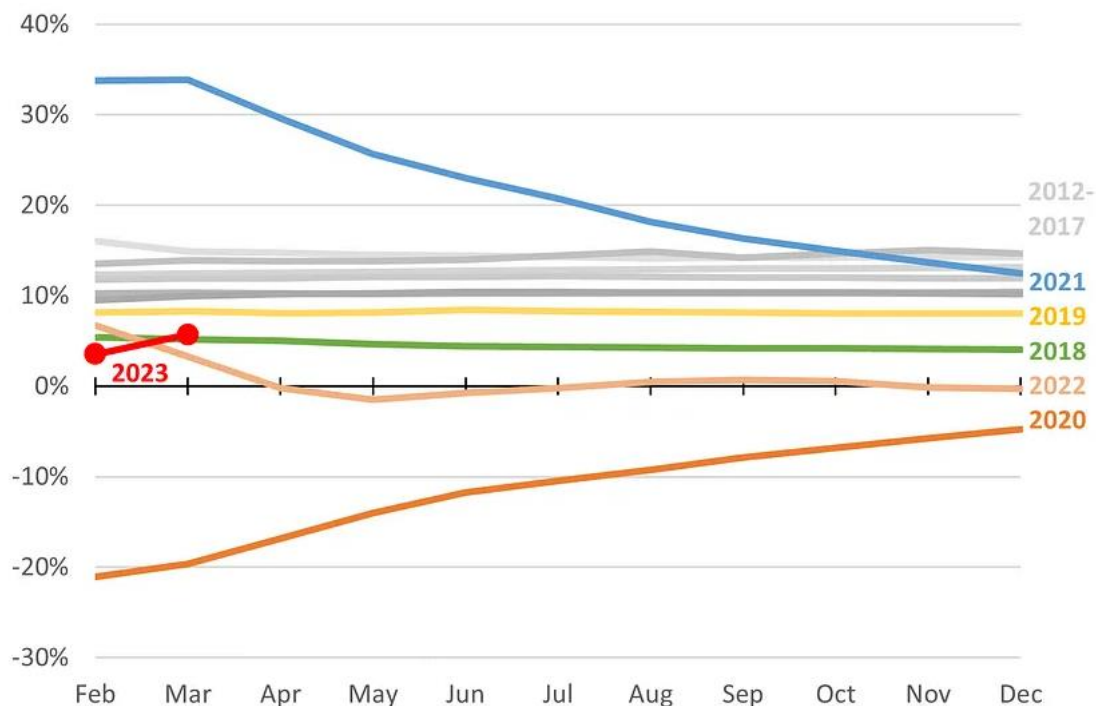
## China's exports boost in March

*Future export growth may be choppy*

In March, **Chinese** exports rose for the first time in six months, reflecting China's nascent economic recovery. Exports were up nearly 14.8 percent in US dollar terms from 2022, after a 6.8 percent decline in January and February. Strong growth is to be expected, given the COVID effects in 2022. Strong demand from **Russia** and Belt and Road Initiative (BRI) economies, such as **Brazil** and **Malaysia**, drove the rebound, offsetting declines in **US** and **EU** exports of 7.7 and 18.2 percent, respectively. March exports were driven by electric vehicles, steel, solar products, and lithium batteries.

Chinese exports to Russia more than doubled to US\$24 billion, and exports to the ASEAN bloc increased by 16.1 percent, totalling US\$227 billion. Exports from China to BRI countries surged 16.8 percent to US\$50.5 billion. Many 'China + 1' destinations, such as **Vietnam**, **Indonesia**, **Mexico**, and **India**, are participants of the BRI and are heavily dependent on Chinese supply chains. 'China + 1' refers to a corporate strategy to diversify supply chains by adding manufacturing locations outside China.

**Retail Sales Year-on-Year % Change**



Source: NBS

Weakening domestic retail sales and global demand will likely weigh on China's economic rebound. In March 2023, retail sales in China dropped by 2 percent compared to January and February. Global trade growth is also [expected](#) to slow to 1.7 percent this year, down from 2.7 percent last year. Inflation, US monetary policy tightening and uncertainty in global financial markets are among the factors likely to restrain export recovery.

## China eyes M&A veto as a low-cost response to US export controls

*While a softer option than reactive export controls, M&A veto has its own risks*

**China** is using mergers and acquisition (M&A) approvals to [retaliate](#) against **US** trade restrictions, including export controls on semiconductors and the ever-expanding number of Chinese companies on the US 'Entity List.' China's anti-trust regulator, State Administration for Market Regulation (SAMR), must approve mergers involving any two companies that collectively generate more than US\$117 million in annual revenue from China. This is the case even if the merger in question is taking place outside of China.

Beijing has begun dragging its feet on US companies' antitrust merger reviews. Intel is a recent example. The chipmaker's proposed US\$5.2 billion takeover of **Israel**-based semiconductor manufacturer Tower Semiconductor in February 2022 has yet to be cleared by SAMR. Intel views the transaction as critical to revitalising its lagging foundry business. Bypassing SAMR might exclude Intel from the Chinese market.

China's 'Unreliable Entities List,' aimed at limiting US firms' investment and technology purchase capabilities, along with proposed export controls on [advanced solar technology](#) and [rare earth magnet tech](#), have been restrained in their application. Beijing has also been reluctant to directly target flagship US companies like Tesla or Apple. The exception so far has been Micron, into which Beijing recently announced a cybersecurity [review](#). Due to the standardised nature of memory chips, Beijing likely calculates that other suppliers will be able to fill the void. Even if the costs are less direct, stalling of M&A deals adds to the growing list of factors forcing foreign businesses to reconsider their China footprint.

## Laos targets wind power to expand energy exports

*Laos' hydropower exports have almost all been funded by China*

A spate of wind power projects are [underway](#) in **Laos** amid the country's efforts to maintain its position as the "battery of Southeast Asia". The renewable arm of **Thai** state-owned oil company Bangchak and **Japan**'s Mitsubishi are building a 600 megawatt (MW) wind farm in Laos' south-eastern Sekong and Attapeu provinces. Set to begin operation in 2025; the project will be the largest wind farm in Southeast Asia. In total, at least nine other wind projects are currently being planned in Laos, including one backed by **Vietnam**. Laos is the leading exporter of energy in Southeast Asia, with around 80 percent of its approximately 11,000 MW annual energy generation purchased by Vietnam and Thailand. Laos has begun exporting energy to **Singapore** and has commenced construction of transmission infrastructure to sell energy to **Cambodia**.

Laos' diversification into wind power is useful for a variety of geopolitical reasons. Chinese-funded hydro dams have, at times, been a vexing issue with Laos' downstream neighbours. Their use has exacerbated droughts across Thailand, Cambodia, and Vietnam. The upstream sections of the Mekong, located in China, are a particular concern for Vietnam, Laos, and Thailand, as the Mekong is the main source of water for these countries and has long been a source of dispute with Beijing. Laos seeks to diversify sources of foreign investment which, in recent times, have come overwhelmingly from China. In 2021, Laos ceded control of Electricite du Laos to Chinese entities for 25 years. A combination of surging bilateral debt to China and a COVID-induced economic downturn left Laos with few suitable options. Although China's footprint in Laos' wind sector is limited, its investment and expertise in this area allow it to capitalise at any time.

## Apple mulls manufacturing expansion into Thailand

*Investment will be welcome to Thailand, which is losing out to faster-growing neighbours*

Apple is [reportedly](#) considering setting up manufacturing in **Thailand**, another move in its '**China + 1**' strategy. Apple is looking to build a new factory to assemble and produce components and modules for MacBooks. Apple has been producing Apple Watches in Thailand since last year. Apple aims to reduce its product share in China from 95 to 80 percent or less by 2025 and is in the process of moving 25 percent of iPhone production to **India** and some of its iPad, Apple Watch and MacBook production to **Vietnam**.

Thailand lost its lustre for foreign investors in recent years. The country's rising wages have seen Thailand's labour costs double compared to Vietnam's. Thailand's population is the second oldest in Southeast Asia, ranking the country poorly for growth. Relative to Vietnam, Thailand is disadvantaged by its smaller network of free trade agreements. The upcoming Thai general elections in May will be a critical moment. The election outcome will either lead to a continued military regime or a potential democratic consolidation after the coup. Bangkok will be hoping that its domestic supply chains and skilled labour pool will position it to reap the benefits of China diversification strategies.

## China pushes forward on “new” coal-fired power plant in Pakistan

*The devil is in the detail – or indeed the lack of detail – of Xi's pledge to phase out international coal financing*

**China** is forging ahead with plans to open up a new coal-fired power plant in **Pakistan** despite President **Xi**'s late 2020 pledge to stop building new coal-fired plants overseas. Last February, plans were [revived](#) to build a 300 megawatt (MW) plant in the Southwestern port city of Gwadar. The project will be constructed by China's CIHC Pak Power and financed by the Commercial Bank of China. The US\$542 million facility will supply power to the Gwadar Free Zone. The zone, established in 2018 as a flagship project under the *China-Pakistan Economic Corridor*, is set to receive power from a new facility worth US\$542 million. The zone is one of the most successful projects under China and Pakistan's US\$62 billion infrastructure partnership.

The Gwadar project underscores the looseness of Xi's ostensibly simple pledge to halt coal financing and construction. The Chinese Embassy in Islamabad has argued that the Gwadar project is not new, given that it was approved in 2016. However, construction on the Gwadar project was not commenced. China officially shifted the goalposts last year, saying its pledge only applies to “new build” projects. There is also contention about what constitutes a coal-fired plant, with China appearing to exclude captive plants (facilities which supply electricity to industry directly). Last year, China's Tianjin Electric Power Construction began building four 380 MW captive coal-fired plants on **Indonesia's** [Obi Island](#). All up, China's pledge is less ambitious than it first appeared.