Behind China's Silk Road vision: cheap funds, heavy debt, growing risk

REUTERS, *Beijing*

BEHIND China's trillion-dollar effort to build a modern Silk Road is a lending programme of unprecedented breadth, one that will help build ports, roads and rail links, but could also leave some banks and many countries with quite a hangover.

At the heart of that splurge are China's two policy lenders, China Development Bank (CDB) and Export-Import Bank of China (EXIM), which have between them already provided $200 billion in loans throughout Asia, the Middle East and even Africa. They are due to extend at least $55 billion more, according to announcements made during a lavish two-day Belt and Road summit in Beijing, which ends on Monday.

Thanks to cheaper funding, CDB and EXIM have helped to unblock what Chinese president Xi Jinping on Sunday called a 'prominent challenge' to the Silk Road: the funding bottleneck.

But as the Belt and Road project grows, so do the risks to policy banks, commercial lenders and borrowers, all of whom are tangled in projects with questionable business logic, bankers and analysts say.

EXIM, seeking to contain risk, says it has imposed a debt ceiling for each country. CDB says it has applied strict limits on sovereign borrowers' credit lines and controls the concentration of loans.

"For some countries, if we give them too many loans, too much debt, then the sustainability of its debt is questionable," Sun Ping, vice governor of EXIM, told reporters last week.

For now, funds are cheap and plentiful, thanks to Beijing.

Belt and Road infrastructure loans so far have been primarily negotiated government to government, with interest rates below those offered by commercial banks and extended repayment schedules, bankers and analysts said.

Massive government capital injections, bonds priced as sovereign debt and access to the central bank's pledged supplementary lending programme keep CDB and EXIM funding costs at rock bottom.

In Indonesia, CDB has offered a 40-year concessional loan, without asking for government debt guarantees, to finance 75 percent of the $5.29 billion Jakarta-Bandung Railway, Indonesia's first high-speed railway and a model infrastructure project for China's Belt and Road effort.

The loans carry a 10-year grace period. A 60 percent portion is denominated in U.S. dollars carrying a 2 percent interest rate, and the remaining 40 percent calculated in Chinese yuan, carrying a 3.4 percent rate, according to a note by Bank of China International.

CDB, the world's biggest development financing institution, says it is not seeking to "maximize profits", Vice President Ding Xiangqun told reporters last week.

The concessional financing has allowed China's big state-owned manufacturers and infrastructure developers to compete aggressively against foreign bidders. Forty-seven of China's 102 central-government-owned conglomerates participated in 1,676 Belt and Road projects, according to government statistics.

China Communications Construction Group alone has notched up $40 billion of contracts and built 10,320 kilometres of road, 95 deepwater ports, 10 airports, 152 bridges and 2,080 railways in Belt and Road countries.

China's central bank governor Zhou Xiaochuan is among those to warn that this reliance on cheap loans raises "risks and problems", starting with moral hazard and unsustainability. China has been caught out before; it is owed $65 billion by Venezuela, now torn by crisis.

"The jurisdictions where many of these loans are going are places that would have difficulty getting loans from Western commercial banks – their credit ratings are not very good, or the projects in question often are not commercially viable," said Jack Yuan, a bank analyst at Fitch Ratings in Shanghai.

"The broader concern is that capital continues to be mis-allocated by Chinese banks."

China's state-owned commercial banks are being pushed to support the government initiative. Top lender Industrial and Commercial Bank of China participated in 212 Belt and Road projects, providing $67.4 billion in credit in total, Chairman Yi Huiman said on Monday.

Bank of China plans to offer $100 billion in credit to such projects by year-end. "Actually, commercial banks are not very motivated," said a senior banker at a large Chinese commercial lender. "We don't provide concessionary loans, and we really don't want those countries to think that all Belt and Road loans are discounted."

The biggest hangover may yet be for the borrowers. For Laos, one of Asia's poorest countries, the $7 billion cost for the China-Laos railway was more than half its 2015 gross domestic product. Its concessionary loan from EXIM was set below 3 percent interest.

In Pakistan, where China has pledged to invest up to $56 billion in rail, road and energy infrastructure, its debt and other repayments on Belt and Road will peak at around $5 billion in 2022, according to the Pakistan government's chief economist.

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Leaders attending the Belt and Road Forum pose for a group photo at the Yanqi Lake venue on the outskirt of Beijing, China.

IMF urges Germany to invest in infrastructure, raise wages

REUTERS

Germany should use its rising tax revenues to invest in infrastructure projects that will enhance its growth potential, and encourage employers to raise wages to help lift euro zone inflation, the International Monetary Fund said on Monday.

The IMF recommendations run counter to the thinking of Finance Minister Wolfgang Schaeuble, who last Thursday announced higher tax revenue estimates for this year and rejected criticism that Germany was not investing enough.

In a report following its annual so-called Article IV meetings with the German authorities, the IMF said Germany's large and persistent current account surplus reflected high domestic savings and better investment opportunities abroad.

"Germany should embrace a set of coordinated fiscal and structural policies to safeguard its strengths and address remaining challenges, including reducing external imbalances," the IMF added.

Bank of China given licence to operate in Pakistan

REUTERS, *Islamabad*

Pakistan's central bank has granted government-run Bank of China a licence to operate in the country to ease the financial requirements of Chinese-led "Belt and Road" projects, the central bank said on Monday.

China has pledged to invest some $57 billion in Pakistan's rail, road and energy infrastructure through its vast modern-day "Silk Road" network of trade routes linking Asia with Europe and Africa.

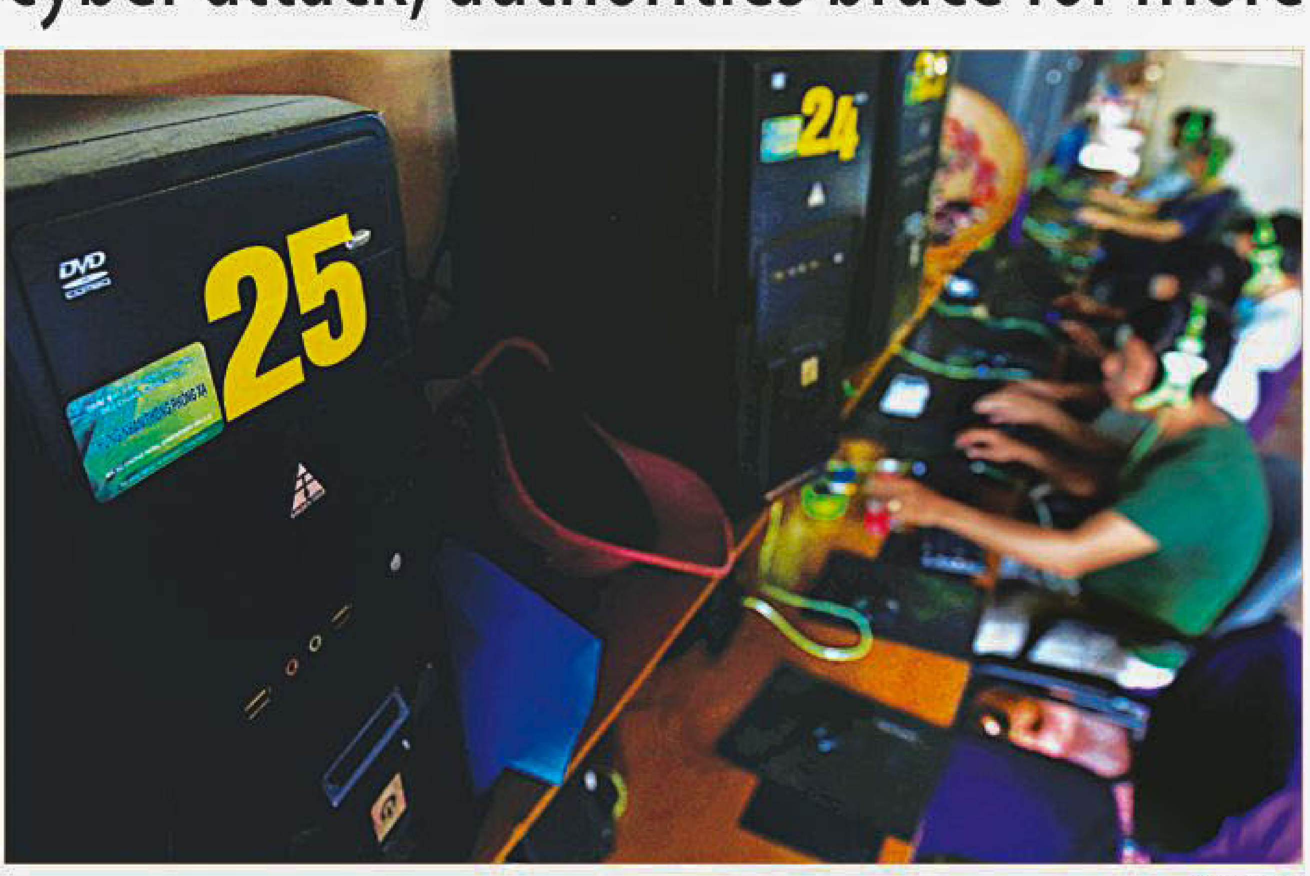
"The Bank of China aims to provide differential and specialised banking services to effectively serve the financing needs of China Pakistan Economic Corridor (CPEC) related projects by leveraging on its experience and global technology platform," the central bank said in a statement.

The statement outlined the Bank of China's ambitions to become one of Pakistan's leading financial institutions by opening branches in major cities across the country. It said the Bank of China will first bring in $50 million to meet minimum capital requirements.

Officials expect a huge uptick in trade between the two countries once Pakistan's Arabian Sea port of Gwadar is functional and motorways are finished to allow goods to cross the Himalayas to and from China's western Xinjiang province.

CPEC has been credited with reviving Pakistan's sluggish economy although some investors have expressed concerns about the potential impact on Pakistan's currency once debt repayments begin.

Some businesses in Asia disrupted by cyber attack, authorities brace for more



REUTERS

Men use computers at an internet cafe in Vietnam.

REUTERS, *Singapore/Washington*

ASIAN governments and businesses reported some disruptions from the WannaCry ransomware worm on Monday but cybersecurity experts warned of a wider impact as more employees turned on their computers and checked e-mails.

The ransomware that has locked up more than 200,000 computers in more than 150 countries has been mainly spread by e-mail, hitting factories, hospitals, shops and schools worldwide.

"Most of the attacks are arriving via e-mail, so there are many 'landmines' waiting in people's in-boxes," said Michael Gazeley, managing director of Network Box, a Hong Kong-based cybersecurity company.

In China, the world's second-largest economy, energy giant PetroChina said payment systems at some of its petrol stations were hit, although it had been able to restore most of the systems. Several Chinese government bodies, including police and traffic authorities, reported they had been impacted by the hack, according to posts on official microblogs.

The official China Daily newspaper, citing Chinese tech firm Qihoo 360, said that at least 200,000 computers had been affected in China, with schools and colleges particularly hard-hit.

A spokesman for the Hong Kong Exchanges and Clearing, one of the region's biggest bourses, said all systems were so far working normally. "We remain highly vigilant," he said.

Companies have warned users and staff not to click on attachments or links. One school in South Korea barred its pupils from using the internet. Taiwan's government appeared to have escaped major infection, possibly because regulations there require all departments to install software updates as soon as they are available.

South Korea's presidential Blue House office said nine cases of ransomware were found in the country, but did not provide details on where the cyber attacks were discovered.

In Australia, Dan Tehan, the government minister responsible for cybersecurity, said just three businesses had been hit by the bug, despite worries of widespread infection. There were no reported cases in New Zealand.

Cyber security experts said the spread of the ransomware had slowed since its appearance on Friday but that the respite might only be brief.

For one thing, the attackers or copycat attackers may have developed new versions of the worm, although a British-based security researcher who thwarted an earlier version of the worm told Reuters most of these reports had been proven false. In Hong Kong, Gazeley said his team had found a new version of the worm that didn't use e-mail to lure victims.

Instead, it loaded scripts onto hacked websites where users who clicked on a malicious link would be infected directly. He said it was too early to tell how many websites had been affected.

Desperately short of labour, mid-sized Japanese firms plan to buy robots

REUTERS, *Tokyo*

DESPERATE to overcome Japan's growing shortage of labour, mid-sized companies are planning to buy robots and other equipment to automate a wide range of tasks, including manufacturing, earthmoving and hotel room service.

According to a Bank of Japan survey, companies with share capital of 100 million yen to 1 billion yen plan to boost investment in the fiscal year that started in April by 17.5 percent, the highest level on record.

It is unclear how much of that is being spent on automation but companies selling such equipment say their order books are growing and the Japanese government says it sees a larger proportion of investment being dedicated to increasing efficiency. Revenue at many of Japan's robot makers also rose in the January-March period for the first time in several quarters.

"The share of capital expenditure devoted to becoming more efficient is increasing because of the shortage of workers," said Seiichiro Inoue, a director in the industrial policy bureau of the Ministry of Economy, Trade and Industry, or METI.

If the investment ambitions are fulfilled it would show there is a silver lining as Japan tries to cope with a shrinking and rapidly aging population. It could help equipment-makers, lift the country's low productivity and boost economic growth.

The government predicts investment in labour-saving equipment will rise this fiscal year, Inoue said.

The way Japan copes with an aging population will provide critical lessons for other ageing societies, including China and South Korea, that will have to grapple with similar challenges in coming years.

"More than 90 percent of Japan's companies are small- and medium-sized, but most of these companies are not using robots," said Yasuhiko Hashimoto, who works in Kawasaki Heavy Industries Ltd's robot division. "We're coming up with a lot of applications and product packages to target these companies."

Among those products is a two-armed, 170-centimeter (5-foot-7) tall robot. Kawasaki says it is selling well because it can be adapted to a range of industrial uses by electronics makers, food processors and drug companies.

Hitachi Construction Machinery says it is getting a lot of enquiries for its computer-programmed digging machines that use a global positioning system to hew ditches that are accurate to within centimetres and can cut digging time by about half.

"We focus on rentals and expect business to pick up in the second half of the fiscal year, which is when most companies tend to order construction equipment for projects," said Yoshi Furuno, a company official. Hitachi Construction declined to provide figures.

Mid-sized companies are planning on increasing spending much more than large-caps, which are projecting just a 0.6 percent increase in the fiscal year, according to the Bank of Japan. Smaller companies tend to have less flexibility in overcoming labour shortages by paying workers more or by moving production overseas.

Some companies could end up spending less than originally planned. But with demographics only worsening, companies will need to continue to search for solutions to the labour shortage problem. Japan's working-age population peaked in 1995 at 87 million and has been falling ever since. The government expects it to fall to 76 million this year and to 45 million by 2065.

In the fiscal year that ended March 31, 2016, mid-sized companies with 100 to 499 workers advertised to fill 1.1 million new positions, the highest in five years and almost five times the number of open positions at companies with 500 workers or more, Labour Ministry data show.

Among the robot makers to report stronger revenue in the last quarter was Fanuc Corp. Its revenue was 7.9 percent higher than a year earlier, the first increase in seven quarters.

Meanwhile, Yaskawa Electric Corp's revenue grew 5.1 percent in January-March from the same period a year ago, the first increase in five quarters.

Robots and labour-saving gear aren't just found in manufacturing and construction. They are also being sought by property developers, food and beverage makers and hotel chains. The Hen na Hotel, or the "Odd Hotel," near Tokyo Disneyland, for example, bills itself as a robot hotel because it uses 140 different robots and artificial intelligence to serve guests in its 100-room hotel and can operate with as few as two to three people, according to the manager Yukio Nagai.

Each room contains an egg-shaped robot, or personal assistant, called Tapia, that uses artificial intelligence to recognize people's faces and respond to their voice commands. It can wake you up, manage your schedule, and control other Internet-linked devices like the TV and air conditioning. Other robots can carry bags and take out the trash.

"Originally we sold this product for use in the home, but now we are getting a lot of enquiries from companies," said Sayaka Chiba, a director at MJI Co, which makes the Tapia. "Banks, hospitals, and hotels are interested in using Tapia for reception work and communicating with customers." "Companies say they are interested in Tapia because of labour shortages. Nursing homes are also interested," she said. "We'll continue to sell this for use in the home, but all the interest from companies show that the market has shifted somewhat."

REUTERS/FILE

Humanoid robots work side by side with employees in the assembly line at a Japanese factory.