

THE BELT AND
ROAD FORUM IN
BEIJING

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IS THE BELT AND ROAD MADE OF STEEL?

CHINA TOOK A MORE MODEST TONE IN ITS LATEST BELT AND ROAD FORUM, BRINGING IT INTO LINE WITH MOST ESTIMATES OF THE STEEL INDUSTRY WHICH HAVE REJECTED THE VERY BULLISH OUTLOOK OF SOME MINERS. KALLANISH TAKES THE OPPORTUNITY TO SET OUT ITS VIEW, ALONGSIDE ITS COUNT OF NEW STEELMAKING CAPACITY PROJECTS IN SOUTHEAST ASIA.

THE QUESTION NOW IS, WILL DEMAND GENERATED OUTPACE THE GROWTH IN CAPACITY?



Is the Belt and Road made of steel?

China took a more modest tone in its Belt and Road Forum, bringing it into line with most estimates of the steel industry which have rejected the very bullish outlook of some miners. Kallanish takes the opportunity to set out its view, alongside its count of new steelmaking capacity projects in Southeast Asia.

While recent media focus has been on the political aspects of the belt and road, alongside other issues such as the issues around Huawei and 5G, there is also a concrete impact on commodity markets such as steel from the pace and tone of investments.

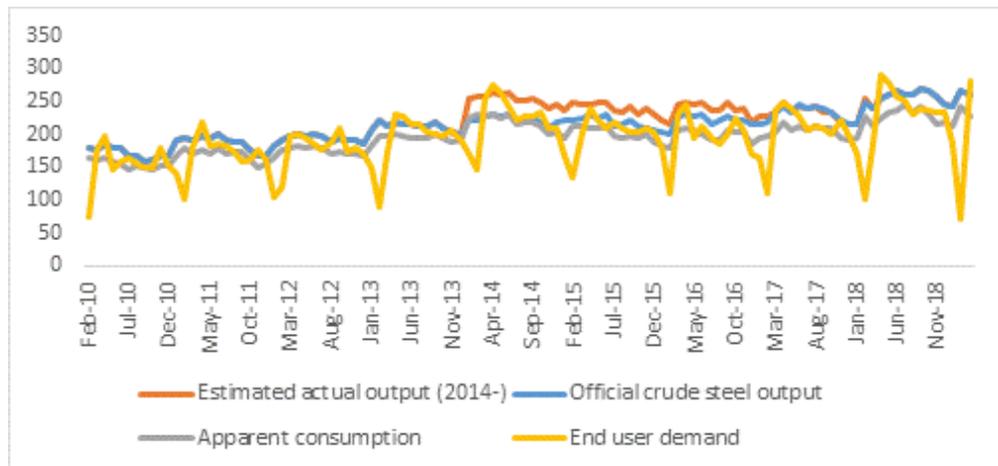
The question now is, will demand generated outpace the growth in capacity?

Table 1. Supply and Demand (million tonnes)

	2018	2019 ytd	Y-o-y	2019 outlook	Y-o-y
Official crude steel output	928.3	231.1	9.90%	947.0	1.30%
Apparent consumption	825.5	205.4	9.22%	844	1.60%
End user demand	827.6	165.2	20.70%	845	1.00%

Source: Kallanish

Figure 1. Daily steel production and demand 2010-2019 (tonnes)



Source: NBS, Kallanish

Searching the Belt and Road for steel

The Belt and Road Forum in Beijing in April would previously have been an opportunity for Beijing to highlight investment, to claim global leadership and look back on the achievements of the Belt and Road Initiative (BRI) to date. The tone however was noticeably different from previous gatherings. After a year of significant pushback against BRI projects, the official statements read like a riposte to criticisms received over the last year and a half. Here are some indicative quotes:

“The Belt and Road Initiative originated in China, but it belongs to the world.”

“Clean government is the moral principle and the legal red line that we should never cross in Belt and Road cooperation.”

“During the tendering, construction, and operational management of a project, we should abide by related laws and regulations, eliminate power rent-seeking.”

Table 2. Key BRI facts

Launch:	Sep 2013
Key components:	Silk Road Economic Belt 21st Century Maritime Silk Road Ice Silk Road Super Grid
Countries signed up :	195

Source: Office of the Leading Group for Promoting Belt and road Initiative

Political issues aside however the question of how to analyse the BRI, and its potential for steel demand, remains unanswered. A good place to start might be ascertaining just how much money is being invested in the scheme. But this is easier said than done. Contracts are not public and announced investment far outweighs realised investment. One estimate by BHP for example gives a total project value of \$1.281 trillion. Morgan Stanley meanwhile has said that China's total expenses on BRI could total \$1.2-1.3 trillion, but only by 2027. These are right at the top of current estimates on the size of the BRI, but even these need to be put into context. The World Bank estimates that there is a shortfall in infrastructure funding in emerging economies of around \$1.3 trillion per year, and the BRI no longer only covers emerging economies.

BHP and Morgan Stanley's estimates are also only based on announced project values. These can change, and not only to move higher. The change in Malaysian government last year resulted in billions of dollars of BRI deals being scrapped. The flagship East Coast Rail Link project meanwhile was eventually renegotiated at a price tag of MYR 44 billion (\$10.68 billion), down 32.8% from the price agreed by the previous government. No doubt other incoming governments will also be looking to see if they can get a third off any of their flagship projects and Chinese investment has become a key election battleground in all Southeast Asia's democracies.

Estimates of actual completed investment are considerably lower. German China-focused institute MERICS says that over the first five years of the BRI China actually invested on \$25 billion in total. That puts BRI at the equivalent of around 5% of China's domestic railway investment over the same period, significant but not a game-changer. The Ministry of Commerce meanwhile has said that BRI-linked outflows averaged around \$15 billion per year over 2015-2018, equivalent to 15% of the railway budget.



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