ShoreVest
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China Debt Dynamics

United States of China

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ShoreVest's investors span the globe, and in recent months we have often been asked by those in various regions of the world what the incoming US administration will mean for China and ShoreVest's strategy. For ShoreVest, we expect only more of the same highly attractive deal flow we have seen post-pandemic. Political and economic cycles are nothing new for us. During our 20 years investing in Chinese private credit, we've seen administrations come and go, navigated economic booms and financial crises, a global pandemic, a domestic property developer meltdown, and more. Through all of this, our asset-backed senior credit strategy has weathered whatever storms arise.

What it means for China is more complex. And not just China. Countries the world over are wondering what the incoming US administration means for them. Whether it's threatening to meddle in the Fed's decision-making or leaving the IMF or even NATO, the established world order faces all around uncertainty. The appointment of Trump loyalists to key cabinet positions spells further ambiguity around the outcome of potential trade wars stemming from indiscriminate "maximum pressure" tariffs on friends and foes alike. As countries grapple with Trump's bilateral transactional approach, and eroding confidence in the US system with a threat to the "rule of law", much of the world may be left to chalk out their own futures and seek new alliances. **In this scenario, we believe China, as the world's second largest economy, is likely to become a centripetal force attracting many**

countries into its orbit, thus becoming a champion of globalization and multilateralism. Adding to the gravitational pull toward China, is the continued expansion of China's middle class, and China's **growing leadership in industries** that are aligned with its domestic priorities and global demand: **Green technologies, advanced manufacturing, and so forth**.

Given the evolving nature of geopolitics and multiple actors with individual agendas, one cannot be certain of precise outcomes, but it is worth reviewing some of our observations from an investor's lens that our readers might find useful in guiding capital allocations globally and into China, as it fosters new global economic ties. **One thing is sure: China is welcoming global cooperation with open arms**. This year, ShoreVest had countless interactions with Chinese government bodies attesting to this fact. From our meeting with the PBOC governor, to the Guangzhou municipal government attending our annual meeting in support of ShoreVest, to an arm of the Shanghai government recently signing a strategic cooperation agreement with ShoreVest, all such interactions with the Chinese government highlight a far more accommodating tone than ever before in welcoming foreign businesses and investment firms like ShoreVest.

But do the other regions of the world similarly desire a tighter connection to China?

First, let's look at **Europe**. As noted by various economists, the EU has failed to build an economy, technology industry, political system or security strategy that is adequate to the demands of the 21st century. Beset with economic weakness due to declining exports (from cars to high-end industrial robots) to its major customer China, and rising energy prices following Russia's invasion of Ukraine, Europe is now overwhelmed with internal political chaos as seen brewing in Germany and France. Further, Europe faces the threat of additional US import tariffs or some concessions (if tariffs are used as a bargaining tool) that could slump exports to America by around a third, according to some economists. **This raises pressure on the EU to preserve its other primary crucial export market: China**.

In recent times, senior leaders of Italy, Germany and the UK have had dialogues with China's leadership, from which one might infer an attempt to reset trade relations with China. Hence, Europe and US might no longer present a united West to decouple from Beijing's economy or restrict China's access to strategically important technology.

In the **Middle East**, our conversations with ShoreVest's friends and investors have made abundantly clear that the region seeks to foster positive relations and deepening economic ties with China. And with "drill baby drill" and "frack, frack, frack" mantras in the incoming US administration, domestic US supplies could far outweigh the need for Middle East oil, **leaving the region to seek other large trading partners, predominantly China**. China's government, on the other hand, has actively sought opportunities to meet with ShoreVest and our Middle East investors about deeper cooperations between China and the Middle East.

In **parts of Asia outside of China**, tariffs on America's Asian allies could take a further toll on their exports to the US, which could enhance their **alliances to promote more trade between each other and with China, a trend in vogue since the first round of tariffs on China in 2018. For context, according to Capital Economics, China accounted for 13% of global goods export volumes in 2018 which only increased to 14% by 2020 (end of Trump's first term and the onset of the pandemic) and currently stands at 17%**. In other words, the data shows that tariffs brought little to harm China's exports, but rather just moved those exports from the US to other buyers around the world that marks China's growing trade relations with other countries ex. US. The rest of Asia—Japan, South Korea, Australia, Philippines, etc.—much like Europe—is also facing threats of declining protection from the US, as it insists on them stepping up their individual defense budgets. This could **draw them closer together into defensive and trade cooperation**.

As a former Chilean finance minister said at the recent Asia-Pacific Economic Cooperation (APEC) meeting in Peru: "**questions about Trump's commitment to the US security umbrella in Europe and in Asia could further reorder economies…things that seemed very unlikely are happening**."

What was most telling at the APEC meeting was the inauguration of a Chinese-built port in Chancay, Peru that aims to **reorder LATAM's trade routes away from the US**.

More than 120 Chinese businessmen traveled to Peru to assess deals, in a resource-rich region otherwise eager for American investment. On the sidelines of the APEC, followed by a G20 meeting in Brazil, China held bilateral talks with heads of state and government officials from countries including Brazil, Chile, Peru and Mexico (all potential markets for Chinese products that could be affected by US tariffs) and signed intergovernmental agreements with Brazil and Peru.

As a self-proclaimed advocate of the Global South and as a stable trading partner, the Chinese Premier also announced an "Open Science International Cooperation Initiative" that would give countries in the Global South access to China's capital and scientific and technological innovations, allowing China to broaden use of its own technology standards (competing with Western standards).

Striking multiple propitious areas for business co-operation across the globe is China's new economic and geostrategic driver as it shifts away from an infrastructure-led economy and aims to improve the living standards of its population with cleaner skies, waters and food. Challenged by US export controls on advanced technology (e.g. semiconductors etc.), China responded with subsidies to enhance indigenous innovation and resilience in establishing a clear lead in EVs, solar panels and lithium battery technology regarded as the "new trio" of the country's industrial base. According to the International Energy Agency, China represents ~30% of clean energy investments, globally. Naturally endowed with deposits of rare minerals and refining/processing capabilities, China dominates the EV supply chain and also leads renewable-energy deployment spending on green-energy projects across the developing world.

Little wonder, **China was a prominent voice at the recently concluded COP29 summit in Baku**, with other developing nations looking up to China as a voluntary donor to help them meet their climate goals. **Beijing is using climate diplomacy to project its economic influence** abroad in the developing world, finding new buyers beyond domestic markets to absorb any excess capacity of its world-leading renewable-energy manufacturers. Though the size of China's overseas investments has fallen sharply since 2016, the number of green-energy investments has defied that trend. With a dominant **30% share in global**

manufacturing, China's LNG shipbuilding and high-speed rail industries are also on track to hit targets. And finally, with state funds to recruit overseas engineering talent to complement its own, China is also **developing strong AI and semi-conductor capabilities** (e.g. Huawei, SMIC) to compete aggressively with the US.

Bracing for impact from potential tariffs, more than 20 US business leaders met China's leadership recently as foreign businesses from Apple to Tesla have so much riding on China that they cannot fold up their local operations and head elsewhere. While some, like Apple, have diversified a fraction of their manufacturing to India, Bangladesh, Vietnam, etc., **China offers much-developed infrastructure and talent for manufacturing, too hard to replicate or ignore given the size of its domestic market**. Many conclude that other locations can at best be a "China plus one" strategy, not a complete substitution. For some, like Tesla, China is so integral to its operations that it cannot wean itself off China when it pegs its future value to autonomous driving that is awaiting Beijing's final approval of its latest driver-assistance technology. Also, Tesla needs to fend off competition from China's BYD that sells more cars locally and is making inroads with local factories in the EU, Brazil and Turkey.

In financial markets, though the US dollar is unlikely to be dislodged from the "world's reserve currency" status anytime soon, the **Chinese yuan is gaining increased popularity** among international borrowers and traders. According to the Federal Reserve, the renminbi share of global payments in 2024 almost doubled to 4 % from the previous year, overtaking the Japanese yen. The renminbi also accounts for ~5% of global trade financing, rapidly catching up with the euro's 6% share. ShoreVest has also recently been courted by major Chinese financial institutions seeking ways to use their offshore RMB to invest with us, because they view our downside-protected cash-flowing strategy as an attractive place to invest this increasing pool of currency.

Overall, in the face of uncertain trade relations with the US, **China is seizing the moment to establish itself as an indispensable economic and trading partner across the world**. Concurrently, **China is presenting itself as a "safe harbor", a bulwark against US uncertainty, and an influential force that can be geopolitically**

helpful to US allies and adversaries alike. It remains to be seen how the geopolitics evolves to shape our conjectures but the direction of travel seems clear.

As a two-decadeslong China private credit manager with local operations and extensive reach into the marketplace through our network of asset servicers across the country, **we at ShoreVest, encouragingly sense an air of optimism among local businesses** around **China's ascendancy on the global stage as it unifies support of other countries in championing globalization and multilateralism**. Also fueling this sanguine atmosphere is **China's growing leadership in green technologies, high-value manufacturing and AI, in its bid to re-orient its economy away from domestic property development**. A constant flow of asset-based lending and debt restructuring opportunities in such sectors crossing our desks is testament to this encouraging phenomenon. As the US appears to be relinquishing its global leadership—geopolitical and economic—and countries and businesses alike recalibrate their alliances in a multi-polar world, investors caught in worn out headlines such as, "is China investable" or "would US Tariffs weaken China's economy" or "fraught US-China relations", should find it **timely to look at China from a new lens. China's exceptionalism is second to none and it would be a mistake to bet against the second largest economy still regarded by the IMF to continue to account for one-third of the world's economic growth**.

From our ShoreVest family to yours, we wish you a joyful holiday season and peaceful tidings in the new year.

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