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CHINA INSIDER

Pumpjack on
an oilfield in
Texas on June
8, 2019.

BRICS EXPANSION

**IS BRICS POISED TO DETHRONE US IN
GLOBAL OIL PRODUCTION?**

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PACIFIC ISLANDS

China's Fishing Armadas Ensnare Pacific Economies, Ecologies: Island Leaders

By John Haughey

They sweep the sea in 400-ship swarms, Chinese fishing boats that—based on time of year and fishery—include trawlers, purse seiners, gill-netters, pole-and-line platforms, squid jiggers, tuna longliners, wood-hulled freighters, and sail-masted junks.

The fleet is shepherded by oil tankers, supply barges, “research” vessels, and hospital ships, shadowed by Chinese navy warships and coast guard cutters, and serviced by massive motherships with 500,000 cubic feet of frozen storage holds.

Rotating motherships ferry harvests to China and return with provisions on a continuous cycle so the fleet can keep fishing until there are no more fish and it must move on to keep fishing until there are no more fish in the new areas across the globe, from Senegal to the South Pacific.

Chinese fishing armadas are becoming common and long-lingering sights in international waters just beyond 200-mile national exclusive economic zones (EEZ) off Africa's and South America's coasts and across the vast central and western Pacific, including off—and allegedly in—the sovereign waters of Guam, American Samoa, and the Commonwealth of Northern Marianas Islands (CNMI), which are United States territories.

Marauding Chinese fishing boats have destroyed domestic commercial industries and damaged sports-fishing businesses across the Pacific, island leaders told a Congressional panel during meetings and field hearings staged on Guam, Saipan, American Samoa, Palau, and Micronesia between Aug. 23–Aug. 28.

“When you take away from the livelihoods of the community, you take away the very vital strength for them to survive. That threat is real,” Guam House of Representatives Vice Speaker Tina Barnes (D-Hagatna) told the House Natural Resources Committee Indo-Pacific Task Force during an Aug. 24 “Peace Through Strength: The Strategic Importance of the Pacific Islands to U.S.-led Global Security” hearing in Tamuning, Guam.

Leaders from the Republic of the Marshall Islands (RMI), Republic of Palau, and Federated States of Micronesia (FSM) joined territorial government officials in citing illegal fishing by swarming Chinese boats as part of a “political warfare” pattern of economic coercion, subversion, harassment, and overt threats orchestrated by the Chinese Communist Party (CCP) to sow discord among local governments, businesses, and civic groups across the Pacific in a persistent effort to drive a wedge between them and the United States.

“Palau has closed off our waters to commercial fishing because it's just too impossible to regulate,” Republic of Palau Minister of Finance Kaleb Udui testified during the field hearing, foregoing revenues from selling fishing licenses to foreign vessels inside its EEZ outside the globally prized Palau National Marine Sanctuary.

Island leaders told the nine-member Indo-Pacific Task Force panel that Chinese fishing fleets, whether by official CCP policy or by indifference, are force-multipliers for organized crime, especially in smuggling and human trafficking activities, while providing cover for Chinese military surveillance, sabotage, and cyber intrusions against infrastructure and United States military installations.

None of this should be a surprise, Rep. Doug Lamborn (R-Colo.) said.

“There are so many things that we



Illegal fishing by the Chinese Communist Party's massive distant-water fishing fleets, including this side-trawler operating illegally in Argentina's territorial waters in May 2020, is plundering global fish stocks and destroying domestic and sports fishing industries across the Pacific, officials told a Congressional panel during an Aug. 23–28 series of island hearings and meetings.

could point to that the Chinese Communist Party is doing to suppress other people when they don't get their way. The suppression of human rights and political rights in Hong Kong, genocide against the Uighur population in western China, theft of international intellectual property, and debt diplomacy.

“And then there's illegal fishing,” he added, calling the methodical plundering of fish stocks a food security challenge being imposed by the CCP on nations reliant on aquaculture and a direct repudiation of their—and the United States'—sovereignty, fearing sooner or later, Chinese boats aggressively muscling into “combat fisheries” will ignite a shooting war.

U.S. Tripling Maritime Monitoring

The task force hearings were conducted as proposed Compacts of Free Association (COFA) with the FSM, RMI, and Palau await Congressional approval in September.

The pacts, renewed every 20 years, are part of the Biden administration's “Pacific Partnership Strategy,” which calls for “renewed U.S. engagement across the full Pacific Islands region” to counter China's efforts “at democratic erosion.”

The administration submitted the proposed compacts to Congress in June after deliberations during the Trump admin-

istration stalled with the three freely associated states. The agreements are set to be enacted when the federal fiscal year begins Oct. 1.

The Biden administration's proposed compacts earmark \$7.1 billion in economic assistance during the two-decade span for the three island nations with \$3.3 billion appropriated for FSM, a \$1.2 billion increase from its 2003 COFA, and \$2.3 billion for RMI, a \$1.3 billion increase from its 2003 COFA.

In exchange, the pacts make the island nations strategic allies. The agreements deny area access to Pentagon-decreed adversaries and allow the Department of Defense (DOD) to maintain key installations and operational ranges within their borders.

A key component of the renewed pacts is the United States pledge to assist in policing EEZ waters with a boosted U.S. Coast Guard presence that will include joint operations and “ship rider” programs where marine enforcement officials from host jurisdictions can direct patrols to where violations are suspected.

The pacts triple the United States' annual commitment for maritime regulatory enforcement to \$60 million per year for the next 10 years as part of a June 2022 security memorandum issued by President Joe Biden to “combat illegal, unreported, and unregulated fishing” in the three Pacific island states and U.S. territorial waters.

That \$60 million annual effort also boosts the number of FBI agents, National Oceanographic and Atmospheric Administration (NOAA) Marine Fisheries agents, forensic auditors, tax investigators, and, of course, attorneys—sea lawyers, literally—to assist the Pacific nations in defending their fisheries on the waters, in the courts, and in the “political wars” forum of public opinion.

The administration maintains industrial overfishing encourages forced labor, human trafficking, and drug smuggling, and “undermine U.S. economic competitiveness, national security, fisheries sustainability, and the livelihoods and human rights of fishers around the world.”

In a virtual address to the 51st annual Pacific Islands Forum in Suva, Fiji, in June 2022, Vice President Kamala Harris said the United States would assist the island nations in efforts to “invest in marine planning and conservation; and combat illegal, unreported, and unregulated fishing; and enhance maritime security,” noting enforcement of maritime pacts such as the South Pacific Tuna Treaty is “a cornerstone of political and economic cooperation” in the region.

Among initiatives launched by the United States is the creation of an IUU (Illegal, Unreported, Unregulated) Fishing Action Alliance with the United Kingdom and Canada to coordinate “urgent action to improve the monitoring, control, and surveillance of fisheries, increase transparency in fishing fleets and in the seafood market, and build new partnerships that will hold bad actors accountable.”

The United States has also established an Interagency Working Group on IUU fishing, comprising 21 federal agencies, to develop five-year plans for protecting fisheries with participating partners from Ecuador, Panama, Senegal, Taiwan, Vietnam, and across the Pacific—all with fisheries episodically besieged by swarms of Chinese fishing boats that ignore most international fishery agreements, demonstrating little concern beyond their daily catch about the long-term sustainability of fisheries.

Invisible Armada Of ‘Dark Ships’

Having severely depleted stocks in its own coastal waters, over the last decade, the CCP is dispatching its fishing industry across the oceans of the world, especially off West Africa or Latin America where enforcement is weaker, where national and local governments lack resources or inclination to police waters.

China's distant-water fishing fleet features A-framed trawlers that slowly pair-net 300-foot wide swathes of the sea, catching more fish in a single sweep than subsistence fishermen catch in a lifetime, or than domestic fishing ships catch in a month.

According to the Food and Agriculture Organization of the United Nations, there were an estimated 4.1 million commercial fishing vessels on the planet in 2022 with two-thirds registered in Asian nations and 2.5 million capable of distant-water fishing over long distances and times.

While Japan, South Korea, Taiwan, and Russia are among nations that subsidize domestic commercial distant-water fishing industries, since the dawn of this century, China has built the world's largest fishing fleet, dwarfing all others.

China is the world's biggest seafood exporter while consuming more than a third of all fish reported caught each year, according to the United Nations, while harvesting half the world's annual reported catch.

China's annual take of the reported global fishery harvest has dramatically increased over the past two decades since the collapse of China's domestic fishery and South China Sea fish stocks.

During that time, the CCP has amassed a modern, high-tech, industrial armada aided by automation, geospatial satellites, and the exploitative mastery of marine sciences to operate at sea—vacuuming efficiencies, devastating fisheries in its wake.

Estimates on the size of China's fishing industry vary from 200,000 to 800,000 commercial ships, the Food and Agriculture Organization of the United Nations notes, placing its own estimate at 564,000 ships, making it, far and away, the world's largest.

But fewer than 2,700 of those ships are registered as deep-water fishing-capable, a number the CCP is widely believed to be under-reporting.

The London-based Overseas Development Institute puts China's distant-fishing fleet closer to 17,000 ships with other monitors offering even higher numbers. By comparison, the United States' distant-water fishing fleet has fewer than 300 vessels.

This fleet on paper has been reduced by nearly half since 2013 when there were more than 1 million Chinese fishing ves-

HANDOUT/ARGENTINA'S NAVY PRESS OFFICE/AFP

COURTESY U.S. EMBASSY



Republic of Palau President Surangel Whipps, (L), and U.S. Coast Guard 14th District Commander Rear Adm. Michael Day sign an expanded bilateral law enforcement agreement on Aug. 23, 2023, during a Joint Heads of Pacific Security conference in Palau.

ologists say, a significant component of China's fishery harvest is likely unreported, and much of these illicit harvests likely come from inside other nations' territorial waters.

Encroaching other nations' exclusive enterprise zones, sweeping the seas with nets that ensnare endangered species, and overfishing already stressed fisheries are dangers China's fishing fleets pose.

China's commercial fishing fleets serve as de-facto paramilitary forces, activities the CCP can frame as private actions that provide cover for accompanying research ships that prospect for minerals, oil, and other natural resources, and military intelligence operatives.

The fishing fleets are a “civilian militia” that function as “a non-uniformed, unprofessional force without proper training and outside of the frameworks of international maritime law, the military rules of engagement, or the multilateral mechanisms set up to prevent unsafe incidents at sea,” Greg Poling wrote in a Foreign Policy column.

Most Wanted: U.S. Coast Guard

All of this makes the United States Coast Guard a much-wanted commodity across the Pacific and a key component in the island nation compacts.

The Coast Guard's sprawling 14th District spans more than 14 million square miles with stations on Oahu, Maui, Kauai, and Hawaii in Hawaii, and four cutters—soon to be five—stationed at Santa Rita on Guam to patrol more than 2 million miles of the western Pacific.

The Coast Guard ships have been conducting six-week, 8,000-mile patrols from the South China Sea to the central Pacific, and their presence is assuring, said Ms. Barnes, the vice speaker of Guam's House of Representatives.

“Guam is the hub of the Pacific and one way to demonstrate this is the jurisdiction of Coast Guard Sector Guam,” she said. “The men and women of the Coast Guard pride themselves on being a ‘force for good’ and the results speak for themselves.”

“The impact that the Coast Guard has on the region is something that the entire

“Blue Continent” takes to heart,” she continued, “whether it be preventing boats of our enemies from entering Guam and our neighbors illegally, or the countless successful critical search-and-rescue operations, I urge each one of you here today to consider furthering their capabilities here in Guam.”

CNMI Gov. Arnold I. Palacios testified on Aug. 24 before the task force that the aggressive illegal fishing is part of CCP's “aggression on multiple fronts.”

“We see it in massive investments in infrastructure and economic development. We see it in land grabs and fisheries expansions. We see it in unauthorized research vessels and divers lurking around our undersea fiber optic cables. We see it in organized crime, public corruption, and political interference,” he said, adding “there is a strategic edge” in how the fishing fleets operate.

FSM Acting Secretary of Foreign Affairs Ricky Cantero said his island nation “appreciates the support it has received from the U.S. Coast Guard” in protecting its waters from illegal fishing and especially the expanded ship-rider program.

“The support that we get from your side, especially from the U.S. Coast Guard, is very, very critical,” he said, noting FSM officials “just went through an annual joint committee meeting with your military.”

“We do it on an annual basis. And we review the strategic posturing in this region. And one of the issues that we always discuss is, how do we counter illegal fishing. And that's one of the primary reasons why we agreed to the expanded ship-rider agreement.”

Guam Gov. Lourdes “Lou” Leon Guerrero testified during the same hearing that “to combat the impacts of climate change and illegal, unregulated, unreported fishing, we need technology, we need financial expertise, we need trained workers, and new businesses if we are to secure ocean-resource monitoring.”

Rep. Harriet Hageman (R-Wyo.) said the angst wasn't just overfishing. “These actions show that China not only disrespects the sovereignty of these islands, but it is a significant national and international security threat.”



13TH REGIONAL COAST GUARD HEADQUARTERS VIA AP

A Chinese Coast Guard cutter in the East China Sea menacingly lurks behind a flotilla of 230 Chinese fishing boats that swarmed the Japanese-controlled Senkaku Islands in August 2016.

When confronted by South Korean Coast Guard helicopters and ships in the Yellow Sea in November 2011, this swarm of Chinese fishing boats banded together with ropes and bulled into the open sea—behind a shield of Chinese warships.



DONG-A ILBO/AFP/GETTY IMAGES

CCP | IN-DEPTH

China's New Patriotic Education Law Meant to Snuff Out Social Unrest, Anti-CCP Sentiment: Experts

By Venus Upadhayaya

The Chinese Communist Party (CCP) introduced a draft of its new patriotic education law for first reading to its rubber-stamp legislature, the National People's Congress, last month. When passed, the law with 37 clauses will be applicable across various institutions and the Chinese diaspora.

Experts believe the law is an attempt by the CCP to reinforce its ideology of socialism with Chinese characteristics, and it also highlights the Party's increasing fears of a civilian upheaval, which it aims to curtail through this law.

"The People's Republic of China's patriotic education law is the most recent iteration of China's long-standing policy of assimilation and 're-education' of its population within its ambit of behavior and ideology 'of socialism with Chinese characteristics,'" Tenzin Lhadon, a research fellow at the Tibet Policy Institute, told The Epoch Times in an email.

The new patriotic education would include "ideology and politics, history and culture, national symbols, the beauty of the motherland, national unity and ethnic solidarity, national security and defense, and the deeds of heroes and role models," according to the draft, reported Chinese state media Xinhua News Agency.

The draft has highlighted that the law specifically focuses on youth, reported Xinhua. It said, "While stipulating that all citizens should undertake patriotic education, the draft highlights the education of children and young people."

Experts said this highlights the fears of the CCP and its attempts to shape the future public discourse.

"Such policies and laws are enacted to bolster and solidify support for the Party, weed out any form of protest, and further centralize control in Beijing," wrote Ms. Lhadon.

In an analysis for The China Project, authors Kathy Huang and Kay Zou described the public resentment as "young patriots turned into protestors."

Ms. Huang and Ms. Zou said that young Chinese are patriotic and outspoken about their love for their nation. However, just like in those years after the Tiananmen Square massacre, many of these young patriots are now suspected of threatening the CCP's legitimacy because they have been at the forefront of protests and dissent like those of last year's zero-COVID protests.

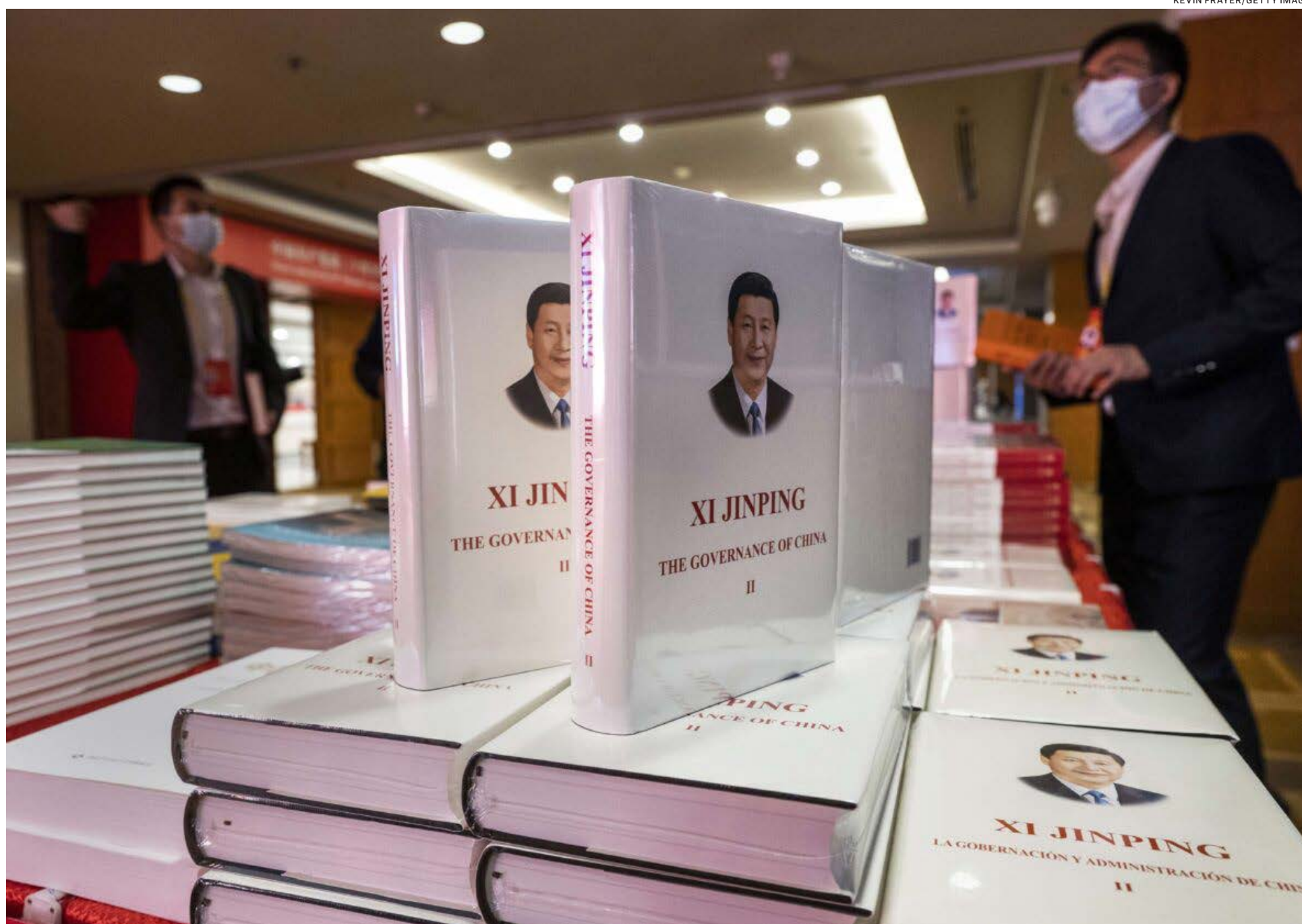
The CCP's draconian COVID-19 measures triggered large-scale protests around China at the end of November 2022, with young people at the forefront. The protests were triggered by the deaths of at least 10 people—according to official reports—in Urumqi, the capital city of Xinjiang region. The first responders were unable to reach an apartment fire that was left to burn for hours due to COVID-19 blockades and lockdowns throughout the residential compound. The protests spread to 22 cities in China, including Beijing, Guangzhou, Shanghai, and Zhengzhou.

"Even after the overturning of COVID zero, their dissatisfaction with the government continues to be fueled by the dismal economic downturn and the worsening youth unemployment crisis," said the China Project analysts.

The unemployment rate among the Chinese workforce aged 16-24 increased to a new high of 21.3 percent in June from 17.3 percent in January, according to a July 17 notification from the National Bureau of Statistics. However, some experts say the official figures are likely underestimated, and the job-seeking woes may last another decade.

Consequently, the young Chinese are seeking alternative ways of living. "Some are dropping out—which people in China call 'lying flat'—to reject the Party's obsession with productivity. Others are 'running' away to escape their pressure of life inside China, and others are 'drifting,'" said the authors.

Threatened by the growing public discontent, the CCP is trying the "tried-and-true tactic of patriotic education" to



▲ Visitors look at books by Chinese leader Xi Jinping at the press center for the 20th National Congress of the Chinese Communist Party in Beijing on Oct. 14, 2022

control the situation and to salvage the Party's popularity.

Law's Outreach Abroad

Nicole Tsai, a spokeswoman for the New Federal State of China, a New York-based pro-democracy group, told The Epoch Times in an email that the new patriotic education law is Chinese leader Xi Jinping's countermeasure against the unprecedented challenges faced by the CCP not only at home but also abroad.

Ms. Huang and Ms. Zou said that while the new law codifies existing practices from previous patriotic campaigns, it also expands its scope to include Hong Kong, Macau, Taiwan, overseas Chinese, and the internet.

"In short, it indicates what the Chinese Communist Party feels are its biggest vulnerabilities for the future control of China: the youth, cyberspace, and Chinese communities beyond the mainland," they said, adding that Hong Kong Chief Executive John Lee has already said that Hong Kong will "comply with" the law.

Mr. Lee said the Chinese law can "facilitate the building of a mainstream value that sees loving China and Hong Kong as its core."

Ms. Lhadon said that the inclusion of

Hong Kong, Macau, Taiwan, overseas Chinese, and the internet indicates that the new law is part of Mr. Xi's larger project under the ethnic unity law enforced upon regions like Tibet, Xinjiang, and Inner Mongolia. The ethnic unity law, according to her, aims to dilute ethnic differences and eliminate threats, thus enforcing assimilation of the so-called minority cultures.

The ... patriotic education law is the most recent iteration of China's long-standing policy of assimilation and 're-education' of its population.

Tenzin Lhadon, research fellow, Tibet Policy Institute

Mr. Lee said unlike Hong Kong and Macau, it's not clear how the law will play out in Taiwan, where the CCP doesn't exert similar political control and the anti-CCP sentiment is high.

The new patriotic education law also



LINTAO ZHANG/GETTY IMAGES

KEVIN FRAYER/GETTY IMAGES

CCP's abuses. This has pushed Beijing toward crisis management, and the new patriotic law is a step toward it.

"The conspicuous surge in international support, particularly orchestrated by the United States, for the Tibet cause has reverberated within China's corridors of power," Kalyani Yeola, a research scholar at India's Birla Institute of Technology and Science, told The Epoch Times in an email.

Ms. Lhadon highlighted a few of these steps taken this year by the United States against CCP policies, such as the Aug. 22 announcement by the U.S. State Department to impose visa restrictions on Chinese officials involved with the forced assimilation of millions of Tibetan children in government-run boarding schools, popularly touted by Tibetan activists as the "colonial boarding schools."

In February, the State Department's Office of the Legal Advisor concluded that China's mass imprisonment and forced labor of Uyghurs in Xinjiang amounts to crimes against humanity. Added to the CCP's global dilemma this year, said Ms. Lhadon, is the recent meeting between the leaders of Taiwan and the United States and the visit by former House Speaker Nancy Pelosi to Taiwan last August, which angered Beijing, prompting it to curb trade and conduct military drills around Taiwan as a warning.

"Globally, China's belligerence faces a much stronger response from countries collaborating under U.S.-led cooperation, regional groupings, and a renewed allied formation aimed at countering China's increasing aggression," said Ms. Lhadon.

According to Ms. Yeola, this global pushback, particularly by the United States, has seemingly evoked a distinct sense of vulnerability and insecurity in the CCP, compelling it to amend its approach to bolster domestic loyalty. Through this, according to her, the regime is also trying to dampen any burgeoning proclivity toward alternative ideologies.

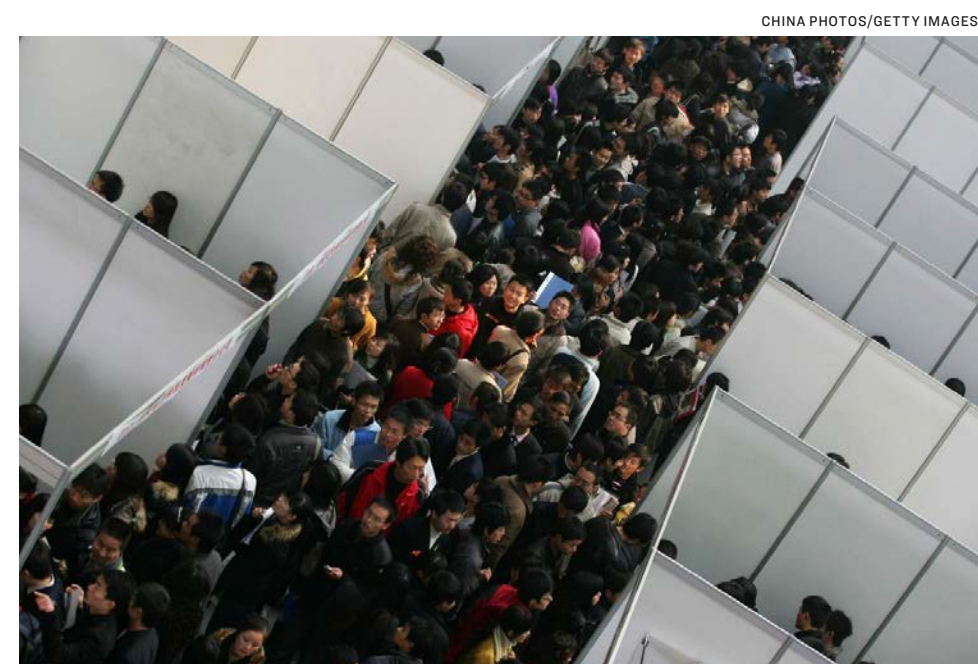
The researcher said the law could also impact the soft power policies of the CCP's adversaries like the United States and can push the latter toward proactive retaliatory measures to counterbalance any potential homogenizing effects of China's patriotic education efforts.

"They could consider strengthening their own cultural and educational engagements within overseas Chinese communities to foster a more diverse and nuanced understanding of their respective cultures," said Ms. Yeola.

Ms. Tsai said she expects the new patriotic education law to accelerate the Chinese exodus from the mainland to the West.

"Here in the U.S., the Border Patrol reported an increase of... Chinese nationals crossing the southern border to enter the U.S. illegally. If communist China is superior to Western democracies, why are so many Chinese people desperately fleeing China?"

Geopolitical Calculus
Experts said the United States has recently taken several steps against the



▲ Job seekers visit a job fair for graduating university students at the Qujiang International Convention and Exhibition Center in Shaanxi Province. A new study shows that the children of officials in the Chinese Communist Party get an average 15 percent higher starting salary than peers with a similar education.

OPINION

China Financial Contagion: What It Means for the World

By Antonio Graceffo



China's economic loss will be the world's gain. China's economic slowdown means the rest of the world will

enjoy lower oil prices, lower consumer goods prices, and lower raw material costs. As Chinese stock markets continue to fall and foreign companies are wary of expanding operations in China, both foreign direct investment (FDI) and equity investments are being redirected to the United States and its allies.

A China slowdown also means that countries will see a decline in their trade with China. However, many of the inputs, raw materials, and components that China normally buys are for the manufacture of products destined for export to the United States and elsewhere. To the extent that demand in those countries persists, new supply chains will develop as manufacturing shifts to India and other countries. In the meantime, there will be some economic turbulence, but in the end, China's loss will be the world's gain.

At the beginning of the COVID-19 lockdowns in 2020, many companies hesitated to redirect their investment or shift manufacturing to other countries. Believing the downturn was temporary, they decided just to wait it out. However, the current problems in China's economy are not temporary and only seem to be worsening.

According to the State Council—China's chief governing authority—in the first half of 2023, the country's GDP grew 5.5 percent year-on-year. However, during the second quarter, GDP growth only expanded by 0.8 percent quarter-on-quarter, showing that momentum is waning. Furthermore, the year-on-year figure was compared to 2022, when the country was still under lockdown. The exceptionally low base of comparison for 2022 distorts the 2023 figure, making it look better than it really is.

China watchers have long predicted the collapse of China's real estate sector, and it seems that vindication is near. Evergrande Group recently applied for U.S. bankruptcy protection. Totaling \$31.7 billion, it is one of the world's largest debt restructurings. The latest story in the real estate sector is that China's No. 1 property developer, Country Garden, currently owes \$194 billion and stands on the brink of default. Consequently, the company's bonds that mature in 2026 are trading at 8 cents on the dollar. Over the past two years, 40 percent of China's private home sales have defaulted, and new home sales by China's largest developers dropped 33 percent year-on-year in July.

One of China's largest trust investment firms, Zhongrong International Trust Co. with \$82 billion under management, recently defaulted on payments to investors. About 10 percent of the trust sector's assets are in real estate, totaling \$302 billion, raising

fears that a collapse of the real estate sector could take the trust sector with it. As the real estate and financial sectors contract, so do employment and wages. Lower incomes, increased uncertainty, and job losses are suppressing consumption.

Imports in China have been trending steadily downward for the past 10 months, with both costs and factory gate prices falling. Every month this year, the cost of Chinese goods at U.S. ports has gone down. With both the real estate and financial sectors in decline, China is purchasing fewer raw materials, which is contributing to a global decline in price. The same is true of energy. China is the world's largest buyer of both oil and coal. And now, oil prices are coming down, and coal prices have declined 60 percent so far this year.

Beijing has set a 5 percent GDP growth target for this year, but economists are more pessimistic about the country's prospects. Ironically, while the economic woes are largely caused by mounting debt and credit expansion, the central bank's reaction has been to cut interest rates. An interest rate cut lowers the standards of profitability and viability of investments, encouraging malinvestment in unsustainable projects. The unnaturally low interest rates of the past decades

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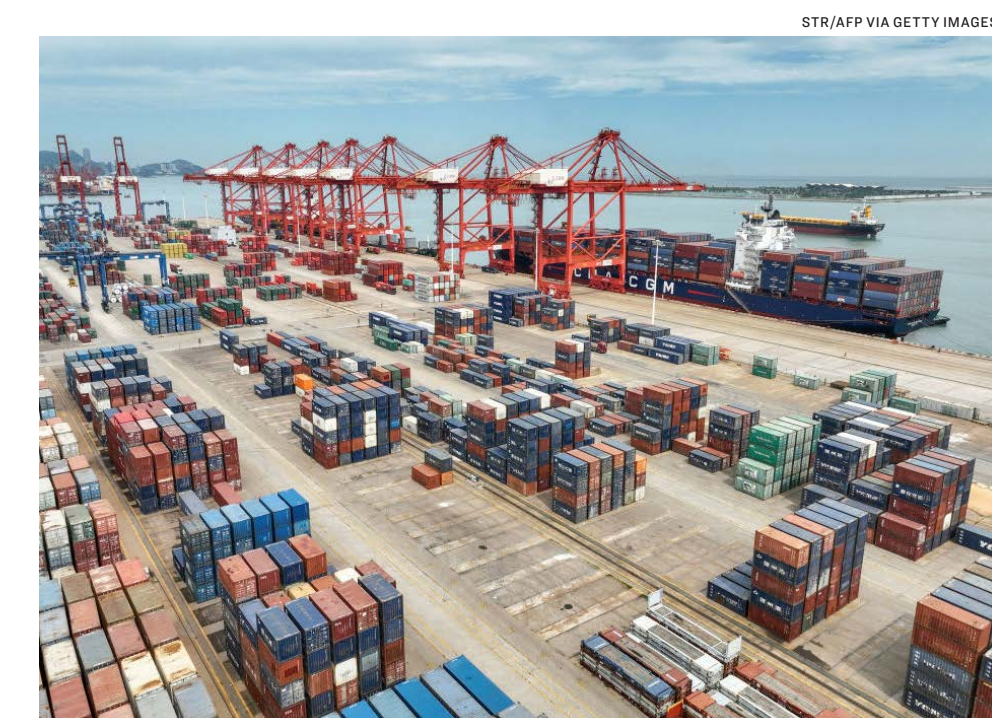
are the reason why China is home to ghost cities and seemingly unnecessary infrastructure projects. In the past, Beijing has used infrastructure investment and soft loans from state banks to spend its way out of recession. But given the current situation, most likely, no amount of spending will bring back the foreign factories or increase exports, which are the only

ways to repay those loans and sustain meaningful economic growth.

As U.S. and foreign investors shift their new ventures to India, Vietnam, and Indonesia, those countries will experience a welcome boom, which will improve the lives of citizens. This increased economic engagement will strengthen diplomatic ties between the United States and its allies while decreasing the world's dependence on China. Beijing will continue to build its pariah bloc with countries like North Korea, Iran, and Afghanistan. Meanwhile, ASEAN, the European Union, Oceania, and South Asia will continue their pivot toward the American sphere.

Antonio Graceffo, Ph.D., is a China economic analyst who has spent more than 20 years in Asia. Mr. Graceffo is a graduate of the Shanghai University of Sport, holds a China-MBA from Shanghai Jiaotong University, and currently studies national defense at American Military University. He is the author of "Beyond the Belt and Road: China's Global Economic Expansion" (2019).

Views expressed in this article are the opinions of the author and do not necessarily reflect the views of The Epoch Times.



▲ Cranes and shipping containers at Lianyungang port in Jiangsu Province, China, on July 16, 2023.

STR/AFP VIA GETTY IMAGES

ANALYSIS

Is BRICS Poised to Dethrone US in Global Oil Production?

By Andrew Moran

As the coalition of emerging market economies better known as BRICS (Brazil, Russia, India, China, and South Africa) has added six more members to the bloc, including Saudi Arabia, the debate in the summit fallout has concentrated on the future of the U.S. dollar as the world's dominant currency.

But what about global energy markets? Over the past year, BRICS nations have accelerated their de-dollarization efforts by abandoning the greenback in bilateral trade and settling in local currencies, whether it be the Chinese yuan or the Brazilian real.

At the bloc's 15th annual summit in Johannesburg, officials confirmed that a working group has been established to assess the creation of a new BRICS reserve currency.

The group plans to rely more on national currencies.

With the buck accounting for most international trade, experts concur that dethroning the U.S. dollar will be a slow process. However, the same sentiment might not be accurate for worldwide crude oil production.

Overnight, BRICS transformed into an energy powerhouse with the addition of three major oil producers.

The coalition's share of global crude production is projected to rise to 43 percent, driven primarily by Saudi Arabia (12.9 percent), Russia (11.9 percent), the United Arab Emirates (4.3 percent), and Iran (4.1 percent).

The organization will also control a vast portion of global oil reserves.

The reformed BRICS is estimated to possess about 700 billion barrels of crude stockpiles, led by Saudi Arabia (297.5 billion barrels), Iran (157.8 billion barrels), Russia (107.8 billion barrels), and the UAE (97.8 billion barrels).

During the summit, South African President Cyril Ramaphosa confirmed that BRICS will be looking at expanding its partnership, which market observers say might include Venezuela.



▲ Pumpjacks are seen at sunrise near Bakersfield, Calif., on Oct. 14, 2014.

Should Caracas join the mix, the entity's control of international oil supplies could top 65 percent.

By comparison, the Group of Seven (G7) economies control about 4 percent of proven reserves.

Geopolitical experts have suggested that BRICS expansion is a big strategic success for China and India, which are the world's largest oil importers.

New Delhi imports more than 80 percent of its energy needs, while Beijing's crude imports climbed by 12 percent year-over-year in the first seven months of the year.

Others don't believe that will seriously alter current conditions in international oil energy markets, especially since many of the new members are a part of OPEC.

"I don't think this has implications on oil production since the three new members with meaningful oil production are already members of OPEC, which will supersede BRICS in matters of oil output," Matt Sallee, president of Tortoise Energy Infrastructure Corp., told The Epoch Times.

At the same time, the de-dollarization campaign and the state of energy markets could collide.

Since more countries are engaging in

non-dollar bilateral trade, some experts wonder if BRICS nations and BRICS+ allies could eventually request that the United States and Europe settle oil trades in local currencies, such as the UAE dirham or Saudi riyal.

Such a move, political observers argue, could result in a paradigm shift since the greenback has accounted for about 80 percent of crude oil transactions over the past few decades.

State of US Energy

The U.S. maintains about 44.4 billion barrels in proven oil reserves, excluding the Strategic Petroleum Reserve, which totals more than 300 million barrels.

For nearly all of 2023, daily output has been little changed, ranging between 12.2 million and 12.4 million barrels per day (bpd).

On a global basis, proven worldwide oil reserves stand at about 1.65 trillion barrels, and daily output is roughly 100 million bpd.

"The BRICS conference shows that in some ways, it's a new bloc that could challenge the United States for energy security," Phil Flynn, senior market analyst at PRICE Futures Group, wrote in a note.

Indeed, there has been widespread

concern that domestic output could be slowing heading into 2024. Despite a barrel of West Texas Intermediate (WTI) trading at about \$80, production growth has been flat for most of 2023 and below-trend compared to before the COVID-19 pandemic.

The number of active drilling rigs fell to 512 for the week that ended on Aug. 25, down from 520 in the previous week, according to the Baker Hughes Oil Rig Count. That measurement has failed to rebound to levels seen before the pandemic and stands at the lowest reading since Feb. 2020.

Enverus Intelligence Research (EIR) recently published a report that warned that production growth will be "more difficult than it was in the past."

"The U.S. shale industry has been massively successful, roughly doubling the production out of the average oil well over the last decade, but that trend has slowed in recent years," said Dane Gregoris, report author and managing director at EIR.

"In addition, we've observed that declines curves, meaning the rate at which production falls over time, are getting steeper as well density increases. Summed up, the industry's treadmill is speeding up and this will make production growth more difficult than it was in the past."

The Energy Information Administration (EIA) warned this month that crude oil and natural gas output from top shale-producing regions is poised to slide in September for the second consecutive month to the lowest levels since May.

EIA data suggest that shale oil production in top-producing areas, including in the Permian Basin and South Texas Eagle Ford, will drop to 9.41 million bpd next month.

It isn't only the United States that may encounter a trim in production in certain areas. Saudi Arabia, Russia, and OPEC members have eased output to support a \$70 price floor, and energy analysts are debating if Riyadh extends

these efforts into the fresh calendar year.

Mixed Supply News

Global supply forecasts for the remainder of 2023 have been a mixed bag.

Despite ongoing U.S.-led sanctions, Iran's daily crude oil output will reach 3.4 million barrels by the end of September. Daily production has surged by 350,000 since the spring, and exports have topped 2 million bpd.

Reports suggest that the Biden administration is drafting a plan to ease sanctions on Venezuela and allow more Western energy firms to operate in the South American country.

Estimates show that these plans could boost production by about 200,000 bpd and increase output to as much as 1 million bpd by 2025.

The BRICS conference shows that in some ways, it's a new bloc that could challenge the United States for energy security.

Phil Flynn, senior market analyst, PRICE Futures Group

Last year, Caracas's crude production slumped to a 50-year low of roughly 700,000 bpd.

In July, total OPEC supply, including volumes from Saudi Arabia and the UAE, tumbled by about 3 percent year-over-year to 22.89 million bpd, according to the International Energy Agency.

The EIA predicts that overall global output will edge up by more than 1 million bpd. U.S. crude production in the lower 48 states, the federal Gulf of Mexico, and Alaska will surpass 12.9 million bpd later this year and exceed 13 million bpd in 2024.

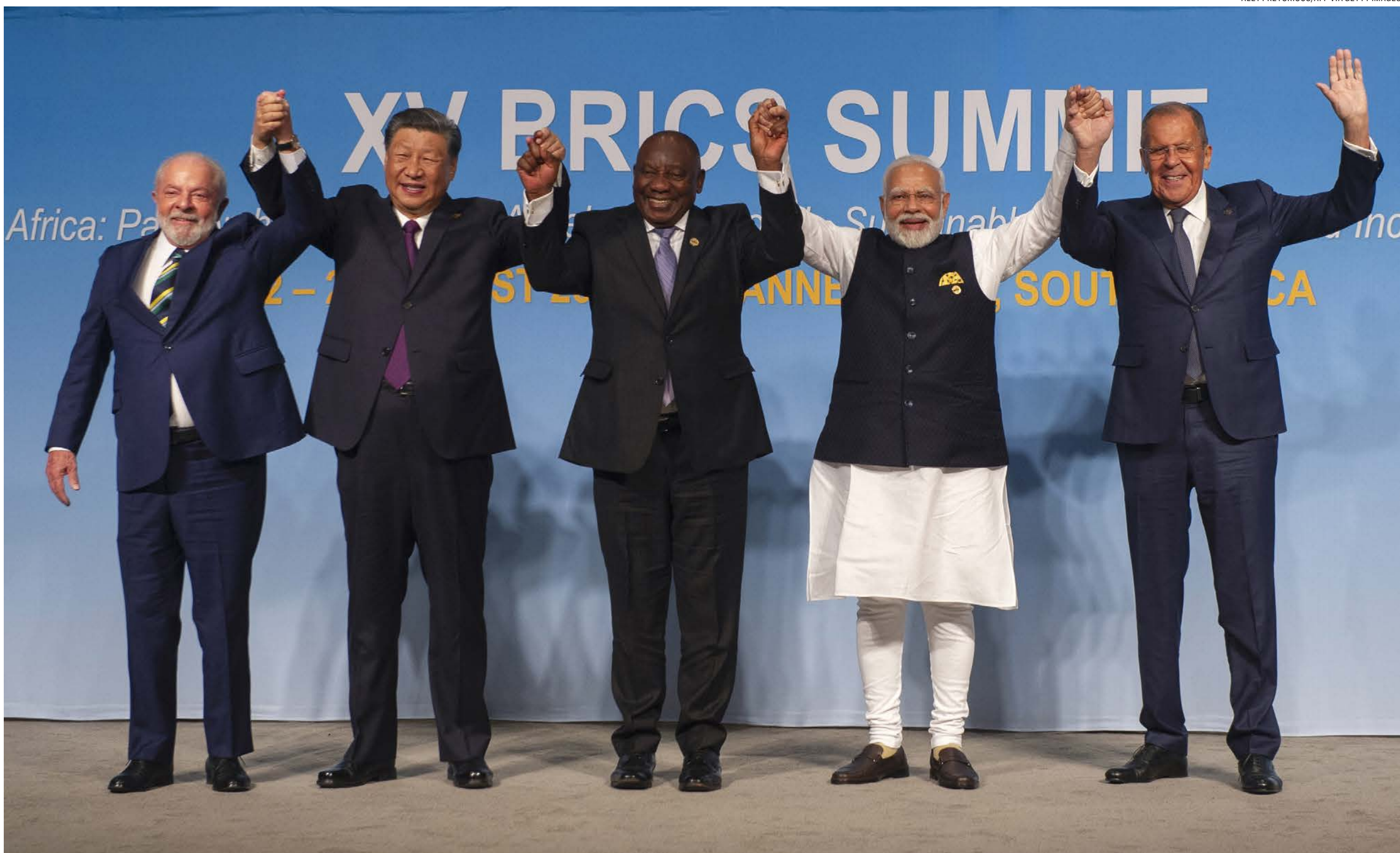
"We forecast global liquid fuels production will increase by 1.4 million barrels per day in 2023. Non-OPEC production increases by 2.1 million bpd in 2023, which is partly offset by a drop in OPEC liquid fuels production," the EIA stated.

"In 2024, global production increases by 1.7 million bpd, with 1.2 million bpd coming from non-OPEC countries. Non-OPEC production growth in the forecast is led by the United States, Brazil, Canada, Guyana, and Norway."

WTI prices have endured massive fluctuations in 2023. Year-to-date, U.S. crude futures are relatively flat at about \$80 per barrel on the New York Mercantile Exchange.

Brent, the international benchmark for oil prices, has slumped by about 2.5 percent this year to \$84.

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Brazil's President Luiz Inacio Lula da Silva (L), China's leader Xi Jinping (2nd L), South African President Cyril Ramaphosa (C), Indian Prime Minister Narendra Modi (2nd R) and Russia's Foreign Minister Sergei Lavrov (R) raise their arms as they pose for a group photograph, at the BRICS Summit in Johannesburg on Aug. 23, 2023.



▲ The logo on the headquarters of China Evergrande Group in Shenzhen, Guangdong Province, China, on Sept. 26, 2021.

ECONOMY

'The Boom Is Over': China's Economy Grapples With Structural Problems, Debt Mountain

By Andrew Moran

Is the "Chinese miracle" fading to black? The world's second-largest economy is grappling with a plethora of different challenges. The country is facing below-trend economic growth, a plummeting currency, rising youth unemployment, shrinking manufacturing activity, and a property sector steeped in financial problems.

China is wrestling with "huge structural problems" that threaten the overall economy moving forward, according to Nicholas Lardy, a nonresident senior fellow at the Peterson Institute for International Economics.

"The boom is over," Mr. Lardy said, noting that Beijing is unlikely to see growth rates of 8 or 9 percent again.

Last year, the Chinese economy reported an annual growth rate of 3 percent. In 2021 and 2020, it was 8.4 percent and 2.2 percent, respectively. Since 2007, when it was more than 14 percent, gross domestic product (GDP) growth has been on a downward trajectory.

But while some assert that Beijing is spiraling downward to 2 percent expansion amid various problems throughout the country, Mr. Lardy asserts that he doesn't see this in the data that he's watching.

"I do think that their growth over the next few years is likely to be significantly higher," he said during an online Center for Strategic and International Studies (CSIS) event. "I certainly think there are a lot of structural problems. There are a number of threats. But I don't think they're going south here."

Despite abandoning most of the pandemic-era Zero-COVID public health restrictions and reopening the economy, economists' expectations of a substantial boom never materialized. Consumer demand has been anemic, resulting in a deflationary climate in July. Exports have cratered amid below-trend demand from key trading partners that are facing stubbornly high inflation and slowing growth. The effects of the collapse in the real estate market, which accounts for approximately two-thirds of Chinese household wealth, are spilling into the broader economy.

All of this has prompted the Chinese government and the People's Bank of China to introduce multiple stimulus efforts in recent months, from lowering key interest rates to cutting taxes on stock trades. A chorus of market analysts argue that Beijing needs to fire off an enormous stimulus to resuscitate the economic landscape.

"Some markets are bracing for the sort of bazooka stimulus response that we have seen at times in the recent past when China has been struggling economically. But we are not at all sure we will see that this time," Robert Carnell, Asia-Pacific regional head of research at ING, wrote in a note.

But the lack of a hefty response "points to a worrying degree of policy paralysis," Julian Evans-Pritchard, head of China economics at Capital Economics, wrote in a report. Without a significant stimulus response, "the downturn could persist for a while longer."

"We now expect q/q growth of just 3.0% annualised over the rest of the year," he wrote. "This rests on the assumption that policymakers will eventually intervene more forcefully. But even then, any economic reacceleration is likely to be modest given the structural decline in trend growth."

Some economists have suggested that officials are tolerating weaker economic growth and not implementing a stronger stimulus because of the enormous amount of debt facing all levels of government.

China's Debt Mountain

The debt-laden Chinese property titans Country Garden and Evergrande Group have captured all the media attention, but governments are also dealing with this reality of abundant red ink. And Jude Blanchette, Freeman Chair in China Studies, said at the CSIS event that these debt issues establish a "ceiling for growth."

Federal debt has skyrocketed since 2011 as officials have tried to prevent complete economic destruction during various economic events, including the 2008-09 global financial crisis and the 2015 property sector decline. It's estimated that the national debt is north of

\$14 trillion, up by 36 percent from 2022, and represents about 250 percent of GDP. This is a higher ratio than the United States' but lower than Japan's.

The chief concern among economists is that this trend could result in a financial crisis or a prolonged economic slump comparable to Japan's Lost Decade of the 1990s.

But it's not only the central government that's observing mountainous debt levels. Local governments—provincial and municipal—are also seeing immense debt volumes, totaling a projected \$12.8 trillion in 2022. Leaders are also struggling to keep up with growing debt-servicing costs.

For example, Guizhou, a southwestern Chinese province, is one of the most indebted governments in the country, reporting nearly \$166 billion in debt at the end of last year. The debt-to-GDP ratio is 62 percent.

Hegang, a Chinese city bordering Russia, has maintained debt totals that are more than double its fiscal income. Officials have responded to these fiscal holes by implementing more pecuniary restraints.

Federal debt has skyrocketed since 2011 as officials have tried to prevent complete economic destruction during various economic events.

Experts note that local government financing vehicles (LGFVs) have contributed to these issues. LGFVs have functioned as funding mechanisms to support infrastructure projects. In 2020, for instance, Guangzhou and Shanghai approved \$25 billion and \$38 billion for infrastructure projects, respectively. Years later, fresh data show that a record number of LGFVs didn't make payments on short-term debt in July, totaling roughly \$260 million.

"Amid a slowing economy and an ailing property market, debt-laden municipalities now pose a potential risk to China's economic growth and financial stability," PIMCO analysts wrote in a research note. "If any LGFVs were to default, it would likely create volatility in China's financial markets, widen credit spreads, cause rates to decline due to a flight-to-quality from corporate to government bonds, and even weaken the yuan."

But any negative effects would be short-lived, they noted.

The central government instituted reforms last month allowing local governments to replace \$140 billion in LGFV debt with local bonds. Chinese leaders have promised to use a "basket of measures" to fend off local debt vulnerabilities.



Chinese leader Xi Jinping attends a press conference at the China-Central Asia Summit in Xi'an, in China's northern Shaanxi Province on May 19, 2023.

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