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CHINA

Risky bets and red elephants

Venezuelan president Nicolás Maduro

By FT reporters

When China signed up to build Venezuela's Tinaco-Anaco Railway in 2009, the scheme was hailed as proof of the effectiveness of socialist brotherhood. Gleaming new Chinese trains were envisaged, whisking passengers and cargo along at 137mph on about 300 miles of track. Hugo Chávez, the late Venezuelan president, called the USD800m project "socialism on rails" and said the air-conditioned carriages would be available to everyone, rich or poor.

But the endeavor has become what locals call a "red elephant", the vandalized and abandoned symbol of Venezuela's deepening economic crisis. A slogan written in Chinese characters on an archway into a deserted construction site has taken on an ironic tone. "Dare to leap ahead," it says.

> **"When commodity prices were high, the Chinese policy banks saw all these loans as great investments to help Chinese firms go global.**
>
> KEVIN GALLAGHER
> GLOBAL DEVELOPMENT POLICY EXPERT

For China, the project represents more than just an isolated example of a dream turned to dust. Over the past decade, the country has transformed itself from a marginal presence to the dominant player in international development finance with a loan portfolio larger than all six western-backed multilateral organizations put together. Outstanding loans from the two big Chinese "policy" banks and 13 regional funds are well in excess of the $700bn owed to the western-backed institutions, according to a recent study.

But in the process of "leaping ahead", China's state development banks and funds have taken on a welter of risk in some of the most unstable countries in Latin America, Africa and Asia. As projects turn sour, the largesse and unorthodox lending protocols that have characterised China's global financial diplomacy are undergoing a thorough re-evaluation, Chinese officials say.

"When commodity prices were high, the Chinese policy banks saw all these loans as great investments to help Chinese firms go global, to diversify their foreign exchange reserves and make new friends," says Kevin Gallagher, professor of global development policy at Boston University's Pardee School for Global Studies. "Now a lot of it just looks a lot like risk and they are rapidly working to do better due diligence."

A Chinese official with the influential National Development and Reform Commission, the government ministry responsible for economic planning, says frustration is mounting in Beijing over poor returns from unsatisfactory projects and a sense that state lenders have in the past taken on too much risk in unstable countries.

"China had no choice but to lend a lot to risky countries because they had the commodities we needed and because the western multilateral organisations already dominated the rest of the world," the official says. "These days we need viable projects and a good return. We don't want to back losers."

When China began funding Chávez's government in 2007, it was effectively betting that a country with a "junk" sovereign credit rating that had defaulted on or rescheduled its debts with overseas creditors four times over the preceding 30 years was somehow ready to embrace financial prudence.

Beijing was so convinced of this that it made oil-rich Venezuela its biggest client for development loans by far, doling out $65bn since 2007 in 17 tranches to fund refineries, gold mines, logistics, trade, the railway and a large number of unspecified items, according to the China-Latin America Finance Database, compiled by Mr Gallagher and Margaret Myers. For context, $65bn is more than the World Bank has lent to any country - with the single exception of India - since 1945, data from the bank show.

In May, Caracas engineered a negotiated default on its Chinese debts. With annual inflation running at as much as 800 per cent in Venezuela, food shortages and government contractors going unpaid, Beijing agreed to let the government of Nicolás Maduro postpone payments of the principal on its outstanding loans, officials in Caracas have said. Having to pay only the interest on an estimated $20bn-$24bn in outstanding loans is set to deliver annual savings of about $5bn for two years, according to Francisco Rodríguez, chief economist at Torino Capital in New York.

However, worse may be yet to come for China. Concern is growing that Caracas may default on its international bonds, a development that would trigger the seizure of national assets held offshore by the country's creditors. This could mean that overseas oil refineries owned by PDVSA, the national oil company, are confiscated and exports of crude - the government's lifeline - would be disrupted, potentially threatening the oil supplies that Caracas uses to repay China.

All this is a far cry from Beijing's ▸▸

Risky bets and red elephants (continued)

optimism of only four years ago. Liu Kegu, vice-governor of China Development Bank, Venezuela's biggest creditor, explained then that because the bank's loans were secured against Caracas's huge reserves of oil, the credit line was insulated against default.

"Oil is very simple to drill. You drill a hole, put in a pipe and it comes out! And then you ship it. So Venezuela's debt service ability is very strong," Mr Liu was quoted as saying in a 2012 interview for China's Superbank, a book by Henry Sanderson and Michael Forsythe.

China's exposure to Venezuela runs much deeper than the $65bn in state-to-state lending. A phalanx of Chinese companies followed the lending splurge, eyeing the likely developmental dividends. In a population that the UN estimates at 31m, the largesse equated to about $2,100 per person.

CITIC Group signed to build railroads and housing, Sinohydro Group signed to build power stations, phone networks were supplied by ZTE and oil refineries and pipelines were erected by Sinopec and PetroChina - not to mention China Railway Group, the contractor for the mothballed Tinaco-Anaco line.

Outwardly, Beijing shows little sign of concern, eschewing any temptation to criticize Mr Maduro in public. But in private discussions with Venezuelan officials, the tone is blunter, analysts said. Chinese officials have also informally made contact with the Venezuelan opposition coalition.

"Even by 2011 or 2012, the Chinese were starting to get nervous," says Evan Ellis, professor of Latin American studies at the US Army War College. "Money was being siphoned off from various projects and China Development Bank was sending in multiple teams and making lots of recommendations that

XINHUA

Chinese Foreign Minister Wang Yi (second left) meets with Venezuelan Foreign Minister Delcy Rodriguez (second right) at the UN headquarters in New York Sept. 21, 2016.

> **China's exposure to Venezuela runs much deeper than the USD65bn in state-to-state lending**

didn't make any difference."

Mr Ellis says that unless things change for the better in Caracas, China is no longer willing to "put good money after bad, unless it is the only way for it to avoid losing its entire position through the collapse of the regime".

Venezuela may be an extreme case, but it is far from the only risky bet that China's overseas development finance regime has become entangled with.

Six of the top 10 recipients of Chinese development finance commitments between 2013 and 2015 were classified alongside Venezuela in the highest category of default risk ranked by the Paris-based OECD. By contrast, only two of the top 10 recipients of World Bank development finance fell into the same category.

A weighted average of the OECD risk ratings on the top 10 borrowers shows that the Chinese overseas development loan portfolio is about 20 per cent more risky than that of the World Bank, according to Financial Times calculations using figures from the World Bank and Grisons Peak, a boutique investment bank which compiles China data.

Part of the reason for this comes down to a philosophical divergence. "We assess risk differently than western agencies because we look at the potential for development of a country," says an official at a Chinese policy bank.

"They look backwards, we look forwards. We know that maybe all they need is infrastructure and if you build that infrastructure then their economy will grow," he added.

Nevertheless, there is ample evidence that Beijing, buffeted by a mounting domestic debt problem and dwindling returns to state-owned enterprises, is starting to take a colder, harder approach to its overseas development agenda. At the country level, some borrowers are seeing their credit lines curbed while, at the project level, Chinese institutions are driving a harder bargain to ensure a viable return.

Russia, which with $15.7bn was the top recipient of loan commitments between 2013 and 2015, according to data compiled by Grisons Peak, is expected to see dwindling support from China.

> **Venezuela is far from the only risky bet that China's overseas development finance regime has become entangled with**

"Chinese lending this year and next is likely to fall off from the level of recent years because they are keen to keep their own resources and because they do not see so many attractive opportunities within Russia for their investment," says a senior Russian government official, who declined to be identified.

In March, Chinese premier Li Keqiang stated that western sanctions had not deterred Chinese investment in Russia. But Chinese private businesses have been vocal about the difficulties of doing business in Russia, and even large state-to-state oil projects are still subject to intense talks long after official deals are signed. The weak rouble has also affected Chinese investment interest.

Zimbabwe and Sudan are two other important recipients encountering a cooling in support, according to the Chinese officials.

Henry Tillman, chief executive of Grisons Peak, says China is starting to strike a balance between the strategic partnerships it forms with countries and the necessity to mitigate credit risk.

"In some cases policy banks have been increasing proposed interest rates, in some cases shortening maturities [on loans], in some cases refusing to fund previously committed second tranches of loans," Mr Tillman says.

In tandem, the newly launched China-led multilateral development banks and funds such as the Asia Infrastructure Investment Bank are spreading risk by lending alongside partners such as the World Bank, Asian Development Bank and European Bank for Reconstruction and Development, he says.

Continental shift

In Africa, the chill in China's embrace is evident. A cancellation by the Ghanaian government last year of half a $3bn loan extended in 2010 was the result of CDB tightening terms on the loan. The bank raised the volume of oil it demanded as payment for the loan from 13,000 to 15,000 barrels a day, making it uneconomic, according to a paper by Thomas Chen, former economic officer at the US Embassy in Ghana.

Shades of Ghana's experience are being felt elsewhere on the continent. Countries that once saw China as a cash cow are starting to return to other sources of global capital due to a rise in Chinese interest rates, says Tang Xiaoyang, a China-Africa scholar at Tsinghua University.

"A lot of China's newly pledged loans are not [official development assistance loans] but are rather market activity, so African governments are less interested in taking them if they can find other better sources," Mr Tang says.

Another factor in the flagging popularity of Chinese finance is that it is often tied to the execution of an infrastructure project by Chinese companies sourcing Chinese equipment and employing mostly Chinese workers. For as long as the costs of such projects were far lower than competitors, recipient countries were willing to accept such terms. But recent examples of white elephants are forcing them to rethink.

High-speed railway diplomacy is a case in point. Agatha Kratz, associate policy fellow at the European Council on Foreign Relations, says such projects are rarely commercially viable because of the technology and construction costs involved. Even though about 20 Chinese high-speed rail projects are officially under discussion around the world, only one in Turkey is operational outside China, Ms Kratz says.

It is not only the railways that have deviated from the original plan. As part of celebrations to mark the 67th anniversary of the People's Republic of China at the end of last month, Venezuelan and Chinese government officials gathered with foreign diplomats at a reception in Caracas.

When the time came for speeches, according to one of those present, the Chinese side talked of joint investments to build a better future.

In response, the Venezuelan side waved socialist flags and called for the two nations to join together to smash global capitalism, one small example of how China and its beneficiaries have lost touch with one another.

AP PHOTO

Members Local 54 of the Unite-HERE union, Tina Condos, a cocktail waitress at Trump Taj Mahal for 27 years, and Keith Fullmer, a bartender for 16 years shout early in the morning outside the closing casino

Donald Trump: 'No reason' for Taj Mahal casino shutdown

By Wayne Parry in Atlantic City

DONALD Trump built the Taj Mahal casino and once called it "the eighth wonder of the world." The Republican candidate in the race for the presidency — who took his Atlantic City casinos through bankruptcy four times — minced no words about last week's shutdown of the gambling hall.

"There's no reason for this," Trump told The Associated Press in a recent interview as his friend and fellow billionaire Carl Icahn prepared to close the casino.

The Taj Mahal shuttered its doors amid a strike by union members that lasted more than 100 days. It is the fifth Atlantic City casino to close since 2014.

Trump said both sides should have been able to work out a deal to keep the casino open. Local 54 of the Unite-HERE union went on strike July 1, after it could not agree with Icahn on a new contract to restore health insurance and pension benefits that were terminated two years ago in bankruptcy court.

Icahn decided on Aug. 3 to close the casino, saying it lacked a "path to profitability."

And now, Trump said, it's too late. "Once it closes, it's too expensive to ever reopen it," he said. Yet that option is exactly what the union's president, Bob McDevitt, and many striking workers suspect might happen.

McDevitt said "there's a strong possibility" that Icahn will keep the casino closed over the winter while conducting renovations and capital improvements, then attempt to reopen it in the spring as a non-union facility. McDevitt said union job actions including picketing and a campaign to get convention groups to patronize other Atlantic City casinos would immediately resume if the Taj attempts to reopen without a union contract.

When asked about McDevitt's comments, Icahn spokesman Andrew Langham said: "Ask him whether the other four casinos he's closed ever reopened."

In August, just days after Icahn announced the closure plans, work crews repaired parts of the casino's facade and Boardwalk entry ways. The company said that those repairs needed to be done regardless of whether the casino is open or closed.

The closure of the sprawling Boardwalk casino, with its soaring domes, minarets and towers built to mimic the famed Indian historic site, cost nearly 3,000 workers their jobs, bringing the total jobs lost by Atlantic City casino closings to 11,000 since 2014. Atlantic City now has seven casinos.

More than a dozen striking workers interviewed Monday said they did the right thing by walking out. Tina Condos, a cocktail server at the casino since its opening, seemed triumphant despite the loss of her job.

> Once it closes, it's too expensive to ever reopen it.
>
> DONALD TRUMP

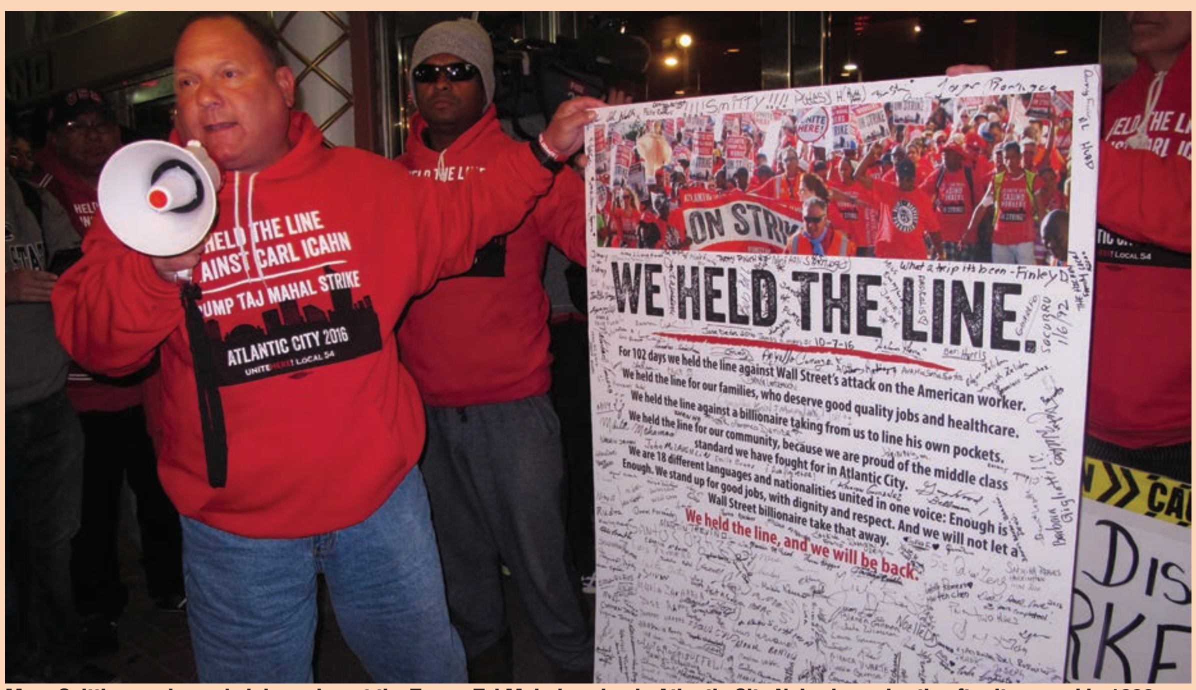
"We stood up to a billionaire and told him we wouldn't take it," she said. "I hope it gives him pause before he tries to come in and do this to anyone else. We feel like we succeeded here."

Rose Hall, yet another Day One employee, cleaned rooms at the casino hotel.

"I gave most of my adult life to this place," she said. "I had to pay for health care out of my own pocket, and if you don't think that's expensive, you haven't looked. I lost my fiancée to cancer just when medical insurance came off the table for us."

She, too, has no regrets about the decision to go on strike to reclaim the same standard of living that workers at the city's other casinos enjoy.

"I'm angry about what's happened, but I'm not sad about what we did," she said. "I'm at peace with myself."



AP PHOTO

Marc Scittina, a players' club worker at the Trump Taj Mahal casino in Atlantic City N.J,. since shortly after it opened in 1990, addresses strikers who signed a poster critical of billionaire Carl Icahn

McDevitt said union members had what he termed "their Popeye moment: 'That's all I can stands; I can't stands no more,'" he said. "For the first time in 30 years, workers stood up to Carl Icahn and made him throw in the towel."

Langham had a different take.

"McDevitt stated that he applauds the workers for standing up to Icahn," Langham said. "Workers have lost their jobs, but McDevitt continues to receive his six-figure salary. It's no wonder he keeps applauding."

> The closure of the sprawling Boardwalk casino brought the total jobs lost by Atlantic City casino closings to 11,000 since 2014

Icahn determined the $350 million he had lost in the Taj Mahal was enough. It was then that he decided to close, fearing he would lose an additional $100 million next year.

"Today is a sad day for Atlantic City," he said last Monday. "Like many of the employees at the Taj Mahal, I wish things had turned out differently." **AP**

Bradley Klapper, Ignatius Ssuuna

Global deal reached to limit powerful greenhouse gases

NEARLY 200 nations have reached a deal, announced Saturday morning after all-night negotiations, to limit the use of greenhouse gases far more powerful than carbon dioxide in a major effort to fight climate change.

The talks on hydrofluorocarbons, or HFCs, were called the first test of global will since the historic Paris Agreement to cut carbon emissions was reached last year. HFCs are described as the world's fastest-growing climate pollutant and are used in air conditioners and refrigerators. Experts say cutting them is the fastest way to reduce global warming.

President Barack Obama, in a statement Saturday, called the new deal "an ambitious and far-reaching solution to this looming crisis." The spokesman for U.N. Secretary-General Ban Ki-moon called it "critically important."

The agreement, unlike the broader Paris one, is legally binding. It caps and reduces the use of HFCs in a gradual process beginning by 2019 with action by developed countries including the United States, the world's second-worst polluter. More than 100 developing countries, including China, the world's top carbon emitter, will start taking action by 2024, when HFC consumption levels should peak.

A small group of countries including India, Pakistan and some Gulf states pushed for and secured a later start in 2028, saying their economies need more time to grow. That's three years earlier than India, the world's third-worst polluter, had first proposed.

"It's a very historic moment, and we are all very delighted that we have come to this point where we can reach a consensus and agree to most of the issues that were on the table," said India's chief delegate, Ajay Narayan Jha.

Environmental groups had hoped that the deal could reduce global warming by a half-degree Celsius by the end of this century. This agreement gets about 90 percent of the way there, said Durwood Zaelke, president of the Institute for Governance and Sustainable Development.

Zaelke's group said this is the "largest temperature reduction ever achieved by a single agreement."

The new agreement is "equal to stopping the entire world's fossil-fuel CO2 emissions for more than two years," David Doniger, climate and clean air program director with the Natural Resources Defense Council, said in a statement.

It is estimated that the agreement will cut the global levels of HFCs by 80 to 85 percent by 2047, the World Resources Institute said in a statement.

AP PHOTO

Air conditioners and power generators are displayed on a street in central Baghdad, Iraq

Experts said they hope that market forces will help speed up the limits agreed to in the deal.

HFCs were introduced in the 1980s as a substitute for ozone-depleting gases. But their danger has grown as air conditioner and refrigerator sales have soared in emerging economies like China and India. HFCs are also found in inhalers and insulating foams.

Major economies have debated how quickly to phase out HFCs. The United States, whose delegation was led by Secretary of State John Kerry, and Western countries want quick action. Nations such as India want to give their industries more time to adjust.

"Thank God we got to this agreement that is good for all nations, that takes into consideration all regional and national issues," said Taha Mohamed Zatari, the head of Saudi Arabia's negotiating team.

Small island states and many African countries had pushed for early timeframes, saying they face the biggest threat from climate change.

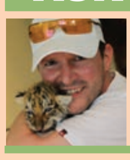
"It may not be entirely what the islands wanted, but it is a good deal," Mattlan Zackhras, the minister-in-assistance to the president of the Marshall Islands, said in a statement. "We all know we must go further, and we will go further."

The U.N. says the next meeting in 2017 will determine how much of the billions of dollars needed to finance the reduction of HFCs will be provided by countries.

HFCs are less plentiful than carbon dioxide, but Kerry said last month that they currently emit as much pollution as 300 coal-fired power plants each year. That amount will rise significantly over the coming decades as air conditioning units and refrigerators reach hundreds of millions of new people.

HFCs don't harm the ozone layer like chlorofluorocarbons and similar gases that were eliminated under the 1987 Montreal Protocol. The entire world ratified that agreement, helping to repair holes in the ozone that helps shield the planet from the harmful rays of the sun. The aim of this meeting was to attach an amendment to that treaty dealing specifically with HFCs. **AP**

ASK THE VET



By Dr Ruan Du Toit Bester

RINGWORM TREATMENT OPTIONS FOR PETS

Pet ringworm is a fungal infection that can affect both cats and dogs, it's not a worm thats under your skin. The lesion it creates is round and looks like a coin impression on your skin. The most common cause of ringworm is the infection with Microsporum canis, Microsporum gypseum or Trichophyton mentagrophytes.

Ringworm is highly contagious to both humans and pets and is transmitted through spores that infect the skin and hair, objects and the soil. The spores can live in the environment for a ling time, waiting for another host, so complete cleaning of the pet's environment must go together with the treatment.

Ringworm has symptoms very similar to other skin conditions, so diagnosis by a veterinarian before starting any treatment is compulsory.

SYMPTOMS OF PET RINGWORM

The symptoms of pet ringworm are not specific, they indicate skin disease but do not point precisely to ringworm:

Hair loss in circular areas mostly on the head but often on the legs, feet or tail, which is the single symptom that is specific to ringworm

Small papules surrounding the area that has no hair

The skin is scaly and inflamed inside these areas

Acne on the chin

Dandruff

DIAGNOSIS OF RINGWORM

As the visible symptoms of ringworm are difficult to differentiate from the symptoms of other conditions, once the veterinarian suspects your pet is affected by it, he will need to perform more tests.

A black light lamp, Wood's lamp, is sometimes used. The ringworm fungi are fluorescent under this light. However, this test is not 100% accurate, as some species of ringworm fungi do not glow under the lamp. Also, healthy animals can have fluorescent fungi on their coat and not have the infection.

The most effective method is a fungal culture that we as veterinarian can easily perform. If your vet cant provide this basic service then its time to find another vet.

PET RINGWORM TREATMENT OPTIONS

Ringworm is highly contagious to pets as well as to humans. Having an infected pet will involve not only treatment of the respective pet but also preventative care for all the pets in the household and thorough cleaning of the environment.

Your options include topical or oral treatment:

Small, isolated lesions can heal without treatment in up to 4 months (but the pet will be contagious during that period of time).

Topical treatment involves clipping the hair around the lesions as close to the skin as possible. You will need to be extremely careful as the smallest injury will help the infection spread further. The most common topical solutions are miconazole cream, Lotrimin cream, 1% chlorhexidine ointment or dips in lime sulfur or antiseptics.

Antifungal shampoos are recommended in order to keep the spreading of the spores under control.

Vaccines for ringworm are available, but they can only be administered accompanied by treatment.

Systemic treatment involves several oral medications. A preferred oral medication for ringworm is Itraconazole, as it is administered together with food. This medication will be accompanied by regular blood tests, to check for side effects on the liver although at the right doses it all should be ok.

Griseofulvin and Ketoconazole are other options, but we don't use this much any more due to the side effects it has.

If your pet is pregnant, you should notify your veterinarian when discussing treatment of ringworm, as some medications can interfere with pregnancy.When having an infected pet, you should be cautious about always wearing gloves and washing your hands thoroughly after having touched the pet.

Hope this info helps our ringworm confused people

Till next week
Dr Ruan

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