NEWS AT A GLANCE

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De La Salle University
AKI
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The financial system

The Banking Crisis of 2023

Summary: The Federal Reserve has been raising interest rates since last year to combat inflation. Thus, funding for venture capital firms dried up, leading to mass withdrawals that started in Silicon Valley Bank (SVB). Moreover, SVB announced that it had to raise more capital to finance these withdrawals. Ultimately, panic spread among depositors that led to the bank run of SVB. This also spread to other banks, such as Signature Bank and First Republic Bank. While Credit Suisse was also affected at the same time these banks collapsed, it is not totally related to the reasons for the banking crisis in the US.

Source: The banking crisis: A timeline of Silicon Valley Bank's collapse and other key events (March 24, 2023), Wall Street Journal

Semiconductor manufacturing

Skilled Workers Shortage Threatens Biden's Plans for U.S. Chipmaking

Summary: The United States planned to reshore its production of semiconductors in the Chips Act. The Federal government planned to give out 53 billion dollars as incentives to produce semicons at home. Some companies, namely Micron Technologies, are looking to invest $100 billion to receive those incentives. However, there might not be enough labor to help staff these new plants. Micron told WSJ in an interview that there are not enough engineers or technicians to staff these plants. They project that the demand for this kind of labor will grow by 20% in the United States. They also stated that they expect this to limit their ability to reshore semiconductor production in the United States.

Source: Skilled Workers Shortage Threatens Biden's Plans For U.S. Chipmaking (March 21, 2023), Wall Street Journal

Asian state bailouts

IMF Approves $3 Billion Bailout for Sri Lanka

The IMF approved a 3 billion dollar loan for the Sri Lankan government. The Sri Lankan government was required to get a moratorium for their debts by renegotiating with their creditors. They recently accomplished this step with a Chinese state-owned bank and got a two-year moratorium. However, Sri Lanka is still cut off from international finance markets. It is working to restructure its debt payments through raising tariffs and taxes. It also has to contend with an inflation rate of 50.6%, and it still does not have enough foreign currency to cover its imports. The Sri Lankan government plans to borrow 7 billion more dollars from the IMF to address this.

Source: IMF Approves $3 Billion Bailout for Sri Lanka (March 20, 2023), Wall Street Journal

Global investments

Huge firms are lowering capital expenditures globally

CapEx refers to the funds used to acquire, upgrade and maintain physical assets like technology for new projects or investments by a company. This was supercharged during the pandemic, as evidenced in 2021 and 2022 when firms in the S&P 500 Index of large American firms spent equivalent to 5% of the USA's GDP on CapEx and R&D, a real-terms rise of around a fifth compared with 2018-2019. However, this boom ended due to inflation causing businesses to be less likely to invest in new products and services and the realization that pandemic lifestyles won't last forever. Semiconductor firms, in particular, have overinvested in capacity and are now pulling back, while big tech firms in the US are expected to cut capital expenditures by 7% in real terms in 2023.

Since semiconductor firms are realizing they overinvested in capacity, this may impact their operations in assembly hubs (usually in the developing Asian nations) like the Philippines, as they may see a reduction in investment and employment. Additionally, with pandemic lifestyles changing, there may be less demand for certain technologies, which could further impact semiconductor companies' operations.

Source: Is the global investment boom turning to bust?: Why capex spending is now heading in the wrong direction (March 18, 2023), The Economist

Climate change

Willow Project: The $8 billion Alaska Oil-Drilling Project

Summary: The decision by the Biden administration to green-light an $8 billion oil drilling venture in Alaska has raised concerns among climate activists who argue that the project's potential to emit 280 million metric tons of carbon into the atmosphere – equivalent to the annual emissions of 2 million cars – far outweighs its economic benefits. While the 30-year venture is expected to create 2,500 jobs and generate $17 billion in federal revenue, the environmental impact cannot be ignored. This poses a significant challenge for the Biden administration, which is grappling with the need to secure the nation's energy supplies in the wake of the Russia-Ukraine conflict while also pursuing investment in renewable energy and technologies.

Source: Biden clears the way for Alaska oil project (March 16, 2023), The New York Times

China

China's Economy Rebounds, Spurred by Consumption

China's economy rebounded in January and February, as the country emerged from the grapples of pandemic restrictions. The growth was mainly fueled by consumption, as seen in the increase of overall retail sales by 3.5%. Industrial production increased by 2.4%, while investment in fixed assets increased by 5.5% Exports continue to contract however, declining since December of 2022–likely because of Western markets being depressed by higher interest rates. Economists have pointed out that the consumption-fueled rebound will have a more limited effect on the rest of the world in terms of demand for imports, unlike the usual growth episodes of China's economy fueled by investment and stimulus. The positive growth comes after Beijing announced its lowest growth target, 5%, in over thirty years.

Sources: China's Economy Rebounds, Spurred by Consumption - WSJ (March 15, 2023), The Wall Street Journal

Global manufacturing

Global firms are eyeing Asian alternatives to Chinese manufacturing

Foreign companies are increasingly looking beyond China for production and expansion due to various reasons. Firstly, the manufacturing wages in China have doubled between 2013 and 2022, making it less cost-effective for companies to continue production there. Secondly, rising geopolitical tensions and economic nationalism have caused “technological decoupling”, further pushing foreign companies to explore other options. Altasia, which includes ASEAN (except Myanmar), India, Bangladesh, South Korea, Japan, and Taiwan, is presenting itself as a formidable alternative supply chain. Hourly manufacturing labor costs in Altasia are only a third of China's, and the region has a larger working age population and a larger number of educated individuals. Moreover, Altasia is already an exporting power and economically integrated through RCEP and CPTPP. However, the article concludes that Altasia will not replace China anytime soon because of its shabby infrastructure and finicky regulations. Nevertheless, in time, China is likely to become less attractive to foreign manufacturers, and Altasia is the budding alternative to China, with no equal.

Source: Global firms are eyeing Asian alternatives to Chinese manufacturing: Can “Altasia” steal China’s thunder? (February 20, 2023), The Economist

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