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Why “Mega-Projects Fall Apart” . . . and Why They Don’t.



Erosion along Ecuador’s Coca River, which some geologists blame on the Coca Codo Sinclair plant, has destroyed stretches of a highway, an oil pipeline and part of a nearby town.

Just the other day we talked about how hard it is to run outstanding factories—factories which make better products at lower production costs—and we noted that a widespread assumption, in the investment world, is that companies which run factories are “all pretty much the same,” meaning most people assume they’re all very good. Like most things we all assume without really knowing, we’re wrong about that. Really outstanding factory operators are as rare as any other “really outstanding” thing . . . and they’re worth their weight in gold to the companies which have them (like Micron, in our story.)

Along exactly the same lines, a couple of reporters at the Wall Street Journal wrote an outstanding piece last week called, “China’s Global Mega-Projects Are Falling Apart.” It’s wonderful reading for us investors and anyone else, because it debunks the “Myth of Mighty China” which seized the world years ago (thanks to a great many wide-eyed pieces of journalism which never bothered to take a hard look at “the Myth.”) We investors who’ve grown highly skeptical of all “myths” over the years found ourselves saying “Well of course!” again and again, as each paragraph of the “Falling Apart!” story revealed itself. But there’s still a lesson for us here.

10 or 15 years ago China first began making waves with its “Belt and Road” foreign policy: ie, lend money to the world’s poorer countries to pay for massive construction projects executed by Chinese companies. “Belt and Road” amounted to buying political power for China all over the world. China knew that political leaders in poor countries would think twice about offending China in any way, once they’d received a few billion dollars and built a massive dam, power plant or highway . . . and maybe found themselves struggling to repay the loan. Yes . . . when China said “Jump!” they could be counted on to ask “How high?” Of course the global media’s reporting on “Belt and Road” seldom put things so cynically. The tone was usually “Wow! What a powerhouse China has become!” We Micron investors

will remember that tone: it was exactly the same tone used on the many “China Plans to Dominate the World Memory Market!” stories from 5 or 10 years ago, complete with pictures of construction on memory-chip plants the size of South Dakota. As the investment world still waits with bated breath for the first superchips to flow out of these factories, some of the top government and memory-company executives in charge of all that seem to have disappeared lately. That’s usually a sign that we can stop holding our breath.

The Journal article reported in gruesome detail the “falling apart” of a half-dozen Chinese mega-projects in Africa and Latin America: poor design, shoddy materials, bad construction, no follow-up, the whole nine yards; and reported the appalled reactions of the poor countries’ engineers and current politicians as they contemplated the snowballing problems on their hands. One of the major “snowballs” was overlooked by the Journal: namely, if American companies had built the projects, they could be sued for bad work . . . which of course would have forestalled the bad work to begin with. But how will it go for Ecuador or Angola when they consider suing China? (Grasshoppers chirping in background.)

Here is the reminder for us investors:

- “Nothing is easy.” Free-market capitalist companies try to make or build the best products, factories, or hydroelectric dams in the world, and still they stumble sometimes . . . with decades of experience and the world’s best talent on the payroll. That doesn’t call for investor cynicism, just scrutiny; just the determination to look, as always, at “the whole picture” before making a judgment about a company and its future, or about “Mighty China” inevitably ruling the memory market or anything else.

But when a company tackles projects which aren’t remotely “easy” and generally succeeds over the years, chances are it has some of those “really outstanding” people—from CEO’s to engineers—who are worth their weight in gold. At Outlook we’ve always suspected China has pretty few of those; and we’ve always been sure our core companies have a good many of them.

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