

Japan heads towards carbon neutrality

Japan has previously been criticised as a laggard on climate change but its changing approach could have implications for Australia's economy

In his first address to the National Diet, **Japan's** new Prime Minister **Yoshihide Suga** pledged to reduce his country's net greenhouse gas emissions to zero by 2050. Suga's pledge emulates those made by the **EU** in 2019 and comes after **China** vowed to meet the same goal by 2060. Before Suga's announcement, Japan had been criticised because of its heavy reliance on coal and refusal to commit to carbon neutrality by 2050. Whilst Suga's announcement was relatively light on specifics, he promised to speed up R&D work on solar batteries and carbon recycling and to "fundamentally change" Japan's reliance on coal. Separately, Economy Minister Hiroshi Kajiyama revealed that a new strategic energy plan – which is expected to be more ambitious on renewables – will be [announced](#) by next year.

Corporate Japan has reacted somewhat nervously to the announcement. One Japanese automaker executive interviewed by the *Nikkei* stated that his company would have to do "[everything](#)" to shift to electrics – an area in which Japan has fallen behind its main competitors. Steelmakers – responsible for 48 percent of Japan's industrial emissions – have already been trying to move away from reliance on coal derivatives towards hydrogen. However, Nippon Steel President Eiji Hashimoto has said hydrogen will need to be "cheap and plentiful" to be a viable alternative. Japanese LNG buyers are now [exploring](#) carbon-neutral shipments.

Across 2018-19, **Australia** exported to Japan AU\$20.2 billion worth of LNG, AU\$19.3 billion worth of coal and AU\$5.8 billion worth of iron ore. While hydrogen and carbon-neutral LNG could be a future export boon for Australia, the future of thermal and coking coal looks less certain. On Wednesday, **South Korea** – another significant buyer of Australian resources – also committed to carbon neutrality by 2050. The pace and way in which East Asia ultimately decarbonises will be crucial to Australia's economic future.

This week in Beijing

Xi will likely have tried to further enshrine the longevity of his rule

Some 200 members of **China's** Central Committee – the Party's top policy-making body – met for four days in Beijing this week for the annual plenary session. This meeting was of special significance, as the Party worked to set its 14th Five Year plan for 2021-2025. While several [general statements](#) have been made following the meeting's conclusion, qualitative and quantitative targets won't be released until early November and March 2021, respectively.

There are some early signs of what to look out for over the coming weeks. For the first time since 1995, this year's plenum appears to have featured a 15-year plan. The 15-year plan set in 1995 allowed then paramount leader Jiang Zemin to stay on as Chairman of the Central Military Commission for nearly two years after Hu Jintao succeeded him in 2002. Given this historical precedent, there is [speculation](#) that current paramount leader **Xi Jinping** will try to use the setting of a 15-year plan as a springboard towards retaining power well into the future. Conversely, any high-level appointments given to those considered to have leadership credentials may signal that change is in the works, although this does not appear to have occurred. Other key areas to watch will be whether Beijing sticks with precedent in setting a long-term GDP target, further concrete details on the 'dual-circulation' economic concept and how Beijing plans to be carbon neutral by 2060.

Sustaining growth in Egypt dependent on reducing military's role

Egypt's 2020 growth figures conceal risk of expanding military economy

The International Monetary Fund (IMF) has revised its 2020 growth forecast for **Egypt** to 3.5 percent growth, up from 2 percent in April. However, sustained long term growth is at risk from the military's deeply entrenched economic role. Success in implementing IMF reforms has been touted as a reason for Egypt's strong performance in comparison to other economies in the region. In 2016, the IMF gave Egypt a US\$12 billion loan in exchange for reforms including reducing energy subsidies and floating the Egyptian pound.

However, the program has failed to transform Egypt into a private sector-led economy. In fact, the [role](#) of the military in the private sector has increased. Retired military officials occupy most regional government leadership positions and public authorities including in transport, aviation, railways and the Suez Canal. The military has also been awarded contracts for new mega projects – such as the approximately US\$19 billion worth of contracts awarded for the new administrative capital and US\$20 billion spent on developing the Sinai Peninsula. Such cronyism is a major threat to the Egyptian private sector. Without sustained reform, Egypt's growth may be undermined over the long term.

Bolivian president lacks clear solution to grim economic outlook

Mining sector likely to remain underdeveloped

Newly elected president of **Bolivia** and Movement for Socialism Party (MAS) member [Luis Arce](#) has inherited a rapidly deteriorating economy. GDP has contracted by 8 percent, unemployment is at 11.8 percent and foreign direct investment is [negative](#) with net capital outflows of 0.4 percent of GDP. The nationalisation of Bolivia's mining sector in 2016 – an act Arce presided over – has been a major barrier to foreign investment. Only 10 percent of Bolivia's vast lithium, natural gas, gold and copper resources have been extracted. Arce plans to retain Bolivia's state-led approach to the sector despite the country's desperate need to stimulate investment and generate jobs. Investors will be required to collaborate with state-owned Yacimientos de Litios Bolivianos (YLB) for all mining projects. YLB must retain the majority of profits and asset control. Arce's [plans](#) to create 130,000 jobs in mining appear optimistic with such strict policies in place. Arce noted in an [interview](#) that "Bolivia has no income". Government debt is projected to increase to 56 percent of GDP from 44 percent in 2019. Something must change or the economy will deteriorate further. However, MAS' majority control in the Senate and the Chamber of Deputies allow it to define the policy agenda. Under Arce, opportunities in Bolivia's underdeveloped mining sector are likely to stall.

Iran's Nagorno-Karabakh dilemma

Clear disjuncture between Iran's rhetoric and its actions

Iran has watched the conflict between **Azerbaijan** and **Armenia** over the Armenian enclave of Nagorno-Karabakh with growing alarm. Fighting between **Turkish**-backed Azerbaijan and increasingly **Russian**-backed Armenia has spilled over into Iran, after missiles strayed into the country's north-west. However, Tehran's real source of insecurity its own 20 million strong Azeri minority – almost a quarter of its population. A series of conflicts between the Russian Empire and Qajar Iran in the 19th century – ultimately won by Russia – resulted in the Azeri ethnic group being split between modern-day Iran and the Russian Empire. After the dissolution of the USSR in 1991 and the emergence of independent Azerbaijan, Iran has come to fear any efforts to re-unite historic Azerbaijan.

This complicated history has put Iran in something of a bind. Publicly, Iran has professed support for Shia Azerbaijan, with representatives of Supreme Leader **Ali Khamenei** touring ethnic Azeri provinces and making statements to this effect. President **Hassan Rouhani** and

Foreign Minister Mohammed Javad Zarif have also assured Azerbaijan of their support. Quietly however, Iran [appears](#) to have opened up its airspace to Russian military supplies destined for Armenia and may have even sent arms itself. Iran's worst fear is that an Azerbaijani success in Nagorno-Karabakh would push Azeris – on both sides of the border – to agitate for unity. For now, Iran seems to be willing to risk inciting its own Azeri minority by covertly aiding Armenia with the hope of precluding a threat of greater dimensions.