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China sees growing wave of debt defaults

Longer-term financial stability will have short-term costs

Over the past few weeks, Brilliance Auto, Tsinghua Unigroup and triple A rated Yongcheng Coal all defaulted on a number of bonds worth around US\$500 million. What has caught observers by surprise is not the size of the default. Rather, it is that all three companies were state-owned enterprises (SOEs). Until recently, defaults – especially SOE defaults – were rare in **China**, largely because of the primacy of domestic economic stability and growth and the dominance of SOEs. This began to change in 2015 when paramount leader **Xi Jinping** launched his deleveraging campaign to tackle a debt-to-GDP ratio now [nearing](#) 300 percent. Unable to refinance their debts because of tighter credit rules, SOE defaults became more common. Local governments – many of which have recently had their growth finance curtailed – are now less willing or able to bail out SOEs. While Beijing intervened to support distressed companies through the worst of the pandemic, these measures are now tapering off. The result is that corporate bond defaults are likely to exceed last year's record total of US\$22.7 billion.

So far, Beijing's response to the latest defaults has been to inject liquidity into the financial system while also pledging "zero tolerance" for fraudulent behaviour. Whilst refusing to bail out distressed SOEs will reduce moral hazard and indebtedness, it comes with drawbacks. Defaults may lead to bankruptcies, higher borrowing costs and possibly even broader financial contagion. Brilliance and Yongcheng's defaults alone caused investors US\$9.15 billion [in](#) losses. Beijing appears to have no easy options.

Vietnam moves towards carbon pricing

The timing of the carbon trading scheme is a deliberate response to emerging global trends

Vietnam has joined other jurisdictions including the **EU** and **South Korea** in pledging to institute a cleaner or "green" recovery from COVID19. Specifically, on 17 November, Vietnam's National Assembly passed a revised law on Environmental Protection that will take effect at the beginning of 2022. The law stipulates that the government will legislate a carbon trading scheme, taking into account both the "local context" and international climate change treaties. Whilst the devil will be in the detail of pending regulations outlining specific targets, timelines and regulated industries, the law is nonetheless a significant first step.

Hanoi has read the tea leaves in its decision to move towards a more sustainable growth model. To begin with, more ambitious climate change action will allow Vietnam to reap additional benefits from its free trade deal with the EU. With both the EU and president-elect **Biden** having pledged to enact policies akin to a border carbon tariff, Vietnam's new law also makes for prudent trade policy. Biden's appointment of former Secretary of State John Kerry as a special envoy on the climate crisis – with a seat on the National Security Council to boot – is a firm early statement of his Administration's intentions. Exporters that fail to take meaningful climate change action may ultimately find themselves priced out of US and EU markets.

Modi left out in the cold

Opting out of a major regional trade alliance and banking on a Trump re-election may not serve Modi in the long-term

India's self-imposed exclusion from the Regional Comprehensive Economic Partnership (RCEP) and Prime Minister **Modi's** gamble on a second **Trump** administration may leave **India** more [isolated](#) in the region. Modi [left](#) the 15-nation trade deal due to concern that India would be flooded by cheap Chinese imports. However, his decision not to integrate with the world's biggest trading bloc may be short-sighted. With India's GDP projected to contract in 2020-21 by 10.6 percent, access to global value chains and attraction of foreign investment should arguably be top priorities. India's exclusion from the accord represents a missed opportunity and may ultimately reduce India's regional influence.

The appointment of President-elect **Joe Biden** may be another blow for Modi, whose preference for the re-election of Trump has been clear. The Trumpian terms of foreign policy engagement suited Modi. Modi, for example, was given a free pass on his controversial exclusion of the Muslim-majority Kashmir. The "Howdy, Modi!" rally organised by Trump and attended by 50,000 Indian Americans in Texas was the largest-ever gathering with a foreign leader in the US. The optics of the event had [political payoffs](#) for both leaders' constituencies.

Conversely, both Biden and Vice President-elect Kamala **Harris** have condemned Modi's human rights abuses. Harris has stated there may be a "need to intervene if the situation demands." Nonetheless, this may not be an immediate or top priority for the incoming administration. Biden will be seeking a strong partner in the region to combat China. This all but guarantees the longevity of US-India bilateral relations – though perhaps without the warmth that characterised the last four years.

Escalating power struggle in southern Syria

Iran, Russia and President al-Assad are competing for ascendancy in Daraa

Russia, Iran and President Bashar **al-Assad's** regime are competing for [influence](#) in Daraa, southern **Syria**. [Russia](#) is the primary power broker in Daraa and has facilitated several key peace agreements in the region. The Russian-backed Eighth Brigade has merged with other armed opposition groups and acts as a local security guarantor. At the same time, Russia appears bent on further extending its influence through control over local governance structures. On November 4, Russia [met](#) with former Free Syrian Army generals and other local leaders to establish the "Joint National Committee in the South." The Committee will govern three large southern provinces. Meanwhile, Iran is looking to gain a foothold to mount attacks on **Israel** – likely as an insurance policy against **US** or Israeli strikes.

Al-Assad has different priorities – namely to restore central government control over the south. Assad's regime is reportedly carrying out assassinations to justify reinforcing its security presence and divide rival factions, with the objective of replacing Russia as the primary power broker. Assad has allegedly even employed former IS fighters to assassinate Russian and Iran-backed proxies. This allows the regime to distance itself and balance its allies. While Assad has effectively crushed Syria's opposition, this has come at a great cost to Syria's sovereignty.

Taiwan-US military ties out in the open

There is even some talk of troops returning permanently to the island

In early November, the **Taiwanese** Navy Command broke with decades of protocol, publicly [acknowledging](#) that **US** and local forces were commencing “military and security cooperation and exchanges”. Local media had reported that US Marines were in Taiwan to partake in four weeks of exercises at the Tsoying Naval Base. The US is believed to hold annual naval, amphibious and special forces exercises in Taiwan. However, these exchanges are rarely, if ever, reported. Eventually, both sides denied the Navy Command’s initial statement. Whilst the US under **President Trump** has been increasingly open about its support for Taiwan, it may have seen the Navy Command’s public statement as unnecessarily provocative.

Why the Navy Command made the statement in the first place is not altogether clear. It may have, for example, been intended to deter **China**’s increasingly aggressive actions towards the island. Coming just days after the US election result, outing secret military ties may also have been a ploy to make it more politically difficult for president-elect **Biden** to walk back bilateral ties. Certainly, it is unclear whether Biden will continue Trump’s practice of sending high-level officials – including US Undersecretary of State Keith Krach and just [this week](#), a two-star Rear Admiral – to the island. Biden also seems unlikely to pay much heed to nascent intra-military [debates](#) exploring returning US troops to Taiwan. However, even if Biden had the intention of doing so, Congress sentiment and a renewed commitment to working with allies will both make it difficult to substantially reduce ties with Taiwan.