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Biden to reset bilateral relations in Latin America

Climate change, migration and China firming as likely priorities for the incoming administration

President-elect Joe **Biden** will likely adopt a more nuanced and traditional approach to relations with **Brazil** and **Mexico** than seen under President **Trump**. Trump overlooked allegations of bribery at senior levels of Mexican government and President Andrés Manuel López **Obrador's** (AMLO) erosion of the independence of the judicial system in return for his cooperation on curtailing illegal migration. Biden will likely re-evaluate the relationship and broaden it to include other policy priorities such as tackling COVID-19 and climate change. Biden may also pressure AMLO to reform the domestic energy market, which is currently dominated by a corrupt and inefficient state-owned company. Future collaboration may be linked to meeting US demands to combat corruption and collusion with criminal groups.

Brazilian President Jair **Bolsonaro** had a strong personal relationship with Trump. His preference for a Trump second term was clear – Bolsonaro said he hoped Trump would be re-elected. Trump offered his "complete support" for Bolsonaro when he was criticised over last year's destructive Amazon rainforest fires. Conversely, Biden has indicated he will demand protection of the Amazon, threatening "significant economic consequences" if Brazil does not comply. Broader strategic concerns will also be important, as Brazil is key to containing **China's** growing influence in Latin America. Biden may seek to convince Bolsonaro to exclude Huawei from the bidding process to construct Brazil's 5G network, scheduled to begin in 2021.

For other leaders in the region Biden's appointment is a welcome change. **Argentina's** President Alberto **Fernandez** was among the first to offer congratulations to Biden. Argentina requires US support for a new IMF programme needed to stabilise the economy and is hoping for a reset given its complicated relationship with the Trump administration.

Resetting bilateral ties will not be without its challenges. Points of friction between the leaders should be expected, particularly regarding climate policy and perhaps to a slightly lesser extent, ties with China. Bolsonaro and AMLO's delay in recognising Biden's election victory may cause some initial awkwardness.

US oil producers set emissions targets

A failure to adapt may have long-term risks

European oil majors have typically outperformed their **US** counterparts on climate pledges. However, mounting institutional investor pressure has led **US oil producers** to draft climate targets. Pioneer Natural Resources plans to reduce its greenhouse gas emissions by a quarter by 2030. ConocoPhillips and Occidental Petroleum have pledged to reduce emissions to net-zero by 2050, joining European producers Shell, BP, Eni, Equinor, Total and Repsol. US producers have excluded 'scope 3' emissions from their commitments – a key point of difference compared with their European counterparts – and lag behind their European peers in renewables investments.

ExxonMobil and Chevron, the two largest energy producers in the US, have been particularly unambitious on climate change. Chevron plans to decarbonise existing assets and reduce "emissions intensity" by to 10 percent. Reducing emissions intensity still allows increases in absolute emissions if the volume sold increases. Notably, Exxon maintains a bullish view of global oil demand, projecting that demand will increase by from around 100 mb/d in 2019 to

111 mb/d by 2040. Exxon plans to increase its fossil fuel output by nearly a third in the next four years to respond to predicted rising demand.

However, Exxon's forecasts are at odds with those of other industry players. BP projects oil demand may never fully recover from the demand collapse caused by COVID-19. If these projections prove correct, oil supermajors like Exxon and Chevron will either be late to the game or face extinction as the energy transition gathers pace.

China considers ESG criteria for BRI investments

If embraced, the regulations could be a shot in the arm for the global Environmental, Social and Governance (ESG) movement

A **Chinese**-government backed group of advisors has proposed a taxonomy that would allow for consistent assessment of categorise Belt and Road Initiative (BRI) projects based on their climate and biodiversity impacts. Under the proposed taxonomy, projects would receive either a green, yellow or red rating. Using a two-step classification system, the initial rating assesses inherent risk while the second rating stage considers residual risk after mitigation steps are taken. All coal projects would receive a red rating irrespective of any proposed mitigation measures.

If adopted, the taxonomy would significantly alter China's usual BRI modus operandi of deferring to – and in some instances also failing to meet – typically weak host nation standards. Chinese banks remain some of the last institutions funding coal projects abroad, while proposed BRI projects also pose serious risks to biodiversity. The lack of ESG standards has given fodder to BRI detractors. For his part, president-elect Joe Biden pledged to "rally a united front…to hold China accountable to high environmental standards" along the BRI.

Whether the taxonomy will have any meaningful impact remains uncertain. The taxonomy's authors were backed by the Ministry of Ecology and Environment which, unlike the National Development and Reform Commission and Ministry of Commerce, does not have the power to regulate overseas investments. Thus far, major Chinese banks have also refrained from adopting basic ESG criteria like the Equator Principles. There also seems to be an inherent tension between the latest ESG push and the BRI's traditional role as a safety valve for domestic overproduction – often in polluting industries. All in all, China's tentative foray into ESG may be more about deflecting criticism of poor BRI practices rather than anything else.

Germany's trade diversification push

German business is increasingly looking away from China towards other Asian markets

Germany's release in August of an official Indo-Pacific White Paper has often been portrayed as a belated attempt to help counter some of **China**'s more belligerent behaviour. Certainly, there is an element of truth to this analysis. Germany has since signalled its intentions to undertake exercises in the South China Sea and send a warship to patrol the Indian Ocean.

However, away from the emphasis on regional power dynamics, much of Germany's Indo-Pacific strategy appears to focus on trade diversification. In 2019, German exports to China were worth over US$107 billion – a figure slightly larger than the combined China exports of the next eight largest European economies. The 30 largest listed German companies generate about 15 percent of their turnover in China. Realising that such an extensive footprint makes Germany economically and politically vulnerable, leading industry figures such as Joe Kaeser (CEO of Siemens) have echoed Chancellor **Angela Merkel**'s call for businesses to diversify. **ASEAN** nations take centre-stage in the White Paper, and Kaeser has specifically identified **Indonesia** and **Vietnam** as sound investment opportunities. A series of developments in Indonesia – including the recently passed Omnibus laws and incipient efforts to build an integrated electric vehicle industry – may make Indonesia particularly attractive for German automakers and advanced manufacturers.

US ramps up Indo-Pacific focus

Moves to re-create the 1st Fleet is a further signal that the US is shifting its focus towards Asia

The **US** appears to be have confirmed that it will move forward with plans – publicly flagged in November – to re-establish a 1st Fleet to check a rising **China**. Disbanded in 1973, the "agile, mobile, at-sea" 1st Fleet would focus exclusively on Southeast Asia and the Indian Ocean – thereby reinforcing the US' advantage around the crucial Strait of Malacca. Whilst **Singapore** had earlier been earmarked by US Navy Secretary Kenneth Braithwaite as a base for the new fleet, it is unclear whether the Lion City was ever meaningfully consulted about the proposal.

Whilst details are still being worked out, Braithwaite has suggested that the US Navy will divide the area covered by the 7th Fleet – which currently stretches from Hawaii to the Arabian Sea. According to Braithwaite, the 1st Fleet would not necessarily take ships out of the 7th fleet, with both fleets sharing resources. Overall, the decision appears to be part of strategy by the outgoing President Trump Administration to lock-in a more assertive stance on China – even if they were so inclined, it appears that the incoming Biden Administration would struggle to reverse the decision without considerable loss of credibility. Whilst the region – bar China – will likely be broadly welcoming of the additional fleet, there may still be points of friction. **India** for example, has traditionally considered itself to be the pre-eminent Indian Ocean power. The establishment of the 1st Fleet then, may serve as a litmus test of the ability of the US and India to jointly manage China's rise.