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China's tech pivot

China-India tensions shifts Chinese investment towards Southeast Asia

Chinese investment in Southeast Asia's tech industry is surging off the back of escalating tensions between China and **India**. India has taken an increasingly overt stance against China following border skirmishes. The dispute has also recently spilled over into the economy. Prime Minister **Modi's** government has targeted Chinese investors, blacklisting over 240 Chinese apps under the pretext of protecting national security. Most of China's most successful apps including TikTok, Alibaba's UC Browser and Tencent's WeChat have been blocked.

China has begun to look elsewhere in the region. Southeast Asia is a lucrative market – the number of internet users exceeded 400 million in 2020. Chinese investment in **Indonesia** increased by 55 percent in the first half of 2020 to total US$2.8 billion. China's technology companies are also increasing efforts to expand in **Singapore**. Tencent Holdings announced plans to develop a regional hub for Southeast Asia in Singapore – the latest in a string of planned expansions. Government intervention remains a risk. Countries in the region are seeking to raise revenue by targeting tech players. The Indonesian government imposed a 10 percent tax on tech companies' sales of streaming services, mobile applications and digital games in August. Foreign digital platforms operating in **Malaysia** with annual turnover exceeding US$120,000 are required to pay a 6 percent service tax as of January this year. **Thailand** imposed a 7 percent value-added-tax on sales for foreign platforms that do not have a local subsidiary and post revenues of over US$57,000 in June. Measures targeting foreign platforms may be expanded by governments to finance bloated deficits post COVID. This emerging trend may present risk to Chinese companies seeking to pivot to Southeast Asia.

Towards a NATO-style economic alliance?

The proposal comes with potential complications

Speculation has emerged that the **Trump** Administration is considering instituting an informal economic alliance to counter **China**'s increasing use of economic coercion. Potential mechanisms outlined in the internal Trump Administration report include compensation for the affected nation and the imposition of joint tariffs on China by alliance members. China's growing use of economic coercion against **Australia** seems to have been the main catalyst for the planned initiative. Given president-elect **Joe Biden**'s emphasis on rallying **US** allies to confront China, there is a realistic possibility that such a proposal could win his backing.

Whilst there is a general sense that something must be done to confront China's behaviour, an informal economic alliance would still face a number of hurdles. To start with, any country joining such an initiative will almost certainly see its relationship with Beijing suffer. Whilst many Western and Asian countries have grievances against China, they differ in nature. An informal economic alliance implies a degree of foreign policy coordination that might be difficult to achieve. Some countries may be reluctant to effectively subside what they perceive to be excessively hawkish policies on China. There are also practical issues, including the wisdom of imposing joint tariffs and whether they would breach WTO rules. Nevertheless, Australia will be hoping that these obstacles can be overcome.

Will OPEC lose relevance?

Cartel's long-term outlook appears uncertain

The outlook is uncertain for the 13-nation Organisation of the Petroleum Exporting Countries (OPEC) as it notches up its 60th year in operation. OPEC's stated mission is to stabilise oil markets and ensure a steady income to producers, but as its production dominance waned the consortium was expanded in 2017 to form an 'OPEC+' alliance that included Russia and other oil producers. Despite a tiff in March between **Saudi Arabia** and **Russia** over market share, OPEC+ successfully steadied the oil price against the global collapse in demand due to COVID-19 by agreeing in April to an historic reduction of supply by 9.7 mb/d. The near-100 percent compliance rate of OPEC+ has been central to its recent success.

However, the alliance appears increasingly fragile. The **UAE** breached its oil-output quotas in July and August, representing a departure from its traditional loyalty. Output increases scheduled for January have been a major source of tension. The UAE is reportedly even considering leaving the organisation. An informal virtual panel of OPEC+ ministers convened Sunday to discuss production cuts and could not agree. Some participants – likely the UAE and **Iraq** – opposed the limits. On the eve of the OPEC+ meeting, Iraq criticised the cartel for overlooking members' individual economic and political conditions when considering production quotas. 90 percent of Iraqi government revenue is dependent on oil production. Expenditure on public sector salaries alone is 20 percent greater than the country's oil revenues. OPEC's "one size fits all" approach appears a blunt instrument in guaranteeing a steady income to producers, particularly for oil-dependent economies with weak balance sheets.

With BP projecting in some scenarios that oil demand will peak in the next few years, and other respected commentators claiming that fossil fuel demand will only decline post COVID, OPEC's longer-term outlook and relevance may be in doubt. As the energy transition picks up pace, OPEC will find itself quibbling over an ever-smaller pie.

China clips the wings of tech giants

Authorities appear to have both economic and political motives

Over the past month, seismic shifts have been underway in the way **China** regulates some of its top companies. First came the scuppering of Ant's IPO, along with a swathe of regulations that will restrict the scope of fintech loans and increase the risk borne by fintech loan providers. Then, regulators followed up with a suite of anti-trust rules aimed squarely at big tech and e-commerce players like Tencent and Alibaba. Proposed regulations would restrict practices such as industry collusion, offering subsidies to customers, the use of Variable Interest Entity vehicles to access foreign investment and the compulsory collection of consumer data. In late November, authorities also moved to set up a joint task force backed by 17 central government ministries to combat unfair competition.

Certainly, there are valid economic arguments supporting proposed regulations. Merchants have long complained of being bullied into exclusive sales agreements. Alibaba sells around 20 percent of all Chinese consumer goods – far above Amazon's five percent in the **US**. However, political motives also appear to be at play. Paramount leader **Xi Jinping** has, throughout his tenure, worked to elevate the role of state-owned enterprises and increase Party control over private companies. There was a growing sense in Beijing that companies like Alibaba had simply become too large and powerful. Individual figures like Jack Ma – the co-founder of Alibaba – are also perceived by Beijing as being arrogant and a symbol of China's growing inequality. Regardless, Beijing's increasing tendency towards heavy-handed interventions will almost certainly negatively impact business confidence.

Assassination of top nuclear scientist threatens regional stability

Conflicting interests within Iran will colour the nature of its response

The assassination of Mohsen Fakhrizadeh, who formerly led **Iran**'s disbanded nuclear program, has heightened tensions in the Middle East. Whilst the perpetrator of the attack is unknown, Iran has pointed the finger at **Israel** and, by extension, the **US.** President Trump – and some elements of the Republican Party and national security establishment – vehemently oppose president-elect **Joe Biden**'s stated policy of seeking to renegotiate the Iran nuclear deal. Earlier in November, outgoing President **Donald Trump** had actively considered striking nuclear facilities within Iran. The assassination was likely carried out by Israel with the US' blessing as a slightly less provocative means of complicating Biden's re-engagement strategy.

Of course, the Trump administration's ploy has more chance of success if Iran is goaded into launching a military response. So far, Iranian authorities have promised to exact "harsh revenge". These words should not necessarily be dismissed as empty rhetoric. Iran feels that it has not fully responded to the assassination earlier this year of major general Qasem Soleimani – not to mention several other clandestine attacks (likely Israeli) on strategic sites throughout the year. Some hardliners are able to profit financially and politically from US sanctions, while others feel that diplomacy with the West is a lost cause.

Yet, at the same time, Iran's economy is reeling – which is a clear threat to domestic stability and possibly even regime survival. Iran may be reluctant to walk into the trap set by Trump and could come off very badly from any military confrontation with a frustrated, lame-duck President. Although the possibility of an immediate response should not be discounted, Iran may ultimately reserve the right to respond whilst giving diplomacy a chance.