

Dragoman Digest.

15.01.2021

Counting the cost: the price of China's trade measures against Australia

Cost is not as bad as some initially feared although there is no end in sight to trade frictions
Data released by the **Australian** Bureau of Statistics provides an insight into the cost of **China's** trade measures. Compared to November 2019, total exports to China fell by 6.4 percent, while exports to the rest of the world fell by 2.6 percent. Exports of coal to China fell by 2.2 percent in November compared to October, while iron ore exports fell by 7 percent – although this was likely due to inclement weather rather than any punitive trade measures. Given the sheer breadth of commodities and services targeted by Beijing and slower growth in China, the decline is not as precipitous as some may have expected. Encouragingly, coal exports – for the time being largely banned from the Chinese market – also appear to have been salvaged by sales to other markets. However, record iron ore prices driven by Chinese stimulus demand appears to have masked declines in other exports. China imports approximately 70 percent of the world's iron ore. As China's infrastructure spend inevitably dials down, the true cost of trade tensions will become more apparent. Trade diversification will only be able to plug some of the shortfall.

Suga's ambitious net-zero roadmap under scrutiny from business

Japan's net-zero aspirations meet challenges in delivery

Toyota President Akio Toyoda's [critique](#) of **Japan's** 2050 carbon-neutral goal points to the challenges economies will face in implementing the bold energy transition commitments of governments. Japanese Prime Minister **Suga** announced plans to achieve [net-zero](#) emissions by 2050 in October last year. Among other things, Suga's roadmap calls for the end of sales of petrol-only vehicles by 2035. Toyoda said that Suga's [plan](#) risks the collapse of the automotive industry's business model. Toyoda estimated that if all the cars in Japan today were electric vehicles, 10 additional nuclear plants or 20 coal-powered stations would be required to avoid electricity shortages during peak usage periods. He also warned that the cost of the supporting infrastructure for Japan's transition to electric vehicles would be between US\$135 to US\$358 billion.

Toyoda criticised Suga's plan as lacking concrete steps to transform Japan's energy mix. Indeed, despite pledging to promote renewable energy, nuclear power and shift Japan's reliance on coal powered energy, the roadmap didn't allocate capital or identify clear pathways to meet the pledges. The case highlights practical challenges other economies face in delivering on ambitious energy targets set by governments.

Vietnam's latest South China Sea ploy

Japanese development of Vietnam's South China Sea oil reserves will be a test of China's willingness and ability to enforce its expansive maritime claims

Although twice bitten, **Vietnam** has refused to shy away from its legitimate rights to develop oil and gas reserves in the South China Sea. In previous years, Vietnam has attempted to develop its reserves – located squarely within its exclusive economic zone (EEZ) – with both **Spanish** firm Repsol and **Russian** giant Rosneft. In both instances, joint ventures collapsed because of imminent threats of Chinese military action.

Now, Vietnam is counting on Japanese firm **Inpex** to reverse the tide after it won the rights to develop offshore blocks. The Vietnamese will be banking on a variety of factors, including its budding strategic partnership with Tokyo, Japan's own concerns over the South China Sea and Tokyo's track record of standing up to Chinese maritime aggression in the East

China Sea. Keeping relations with Japan on an even keel is also vital to Beijing's plan to thwart the likely attempts of President-elect **Biden** to reinvigorate US alliances. Nonetheless, allowing development to proceed within Vietnam's EEZ could undercut Beijing's maritime claims and encourage other countries challenged by China on maritime borders to undertake JVs with Japanese companies. With drilling expected to commence as early as this year, the South China Sea may once again become a geopolitical flashpoint.

Japan-South Korea flareup a hurdle to Biden's united front against China

Historical conflict over comfort women and other issues has led to diplomatic stalemate

A long-standing dispute between **South Korea** and **Japan** threatens to further divide two of the **US'** most important allies in the region. A South Korean court [ordered](#) Japan to pay compensation to 12 women who were used as sex slaves during Japan's occupation of the Korean peninsula. Japanese Prime Minister **Suga** labelled the ruling "unacceptable." The Japanese government argues that the issue was "finally and irreversibly" settled by a 2015 wartime reparations agreement. However, President **Moon Jae-in** said he plans to respect the independence of the judiciary, placing the two countries in a diplomatic deadlock.

President-elect **Biden** has pledged to "build a united front of US allies and partners to confront **China's** abusive behaviours." A robust alliance between the three countries is critical to countering China's rise in the region. Japan and South Korea hold somewhat divergent views on China. Suga's more sceptical [stance](#) has been clear. Japan has joined the Quadrilateral Security Dialogue alongside **India** and **Australia**, committed to supporting US objectives in the Indo-Pacific and continued former Prime Minister Abe's military expansion. South Korea's stance toward China is more ambiguous. It plays a careful [balancing act](#) between the US and China and needs Beijing's cooperation to advance its objectives with North Korea. Renewed tensions with Japan may encourage South Korea to shift towards China.

Biden's incoming secretary of state, Antony Blinken is expected to devote attention to rebuilding the relationship. Blinken and Biden may seek to leverage Moon's desire to repair **North Korea**-US and inter-Korean relations in exchange for quietly progressing the longstanding dispute with Japan.

Myanmar's delicate BRI dance

Myanmar appears to be actively resisting aspects of China's Belt and Road Initiative (BRI)

It is often argued that despite the questionable merits of some BRI projects, it is ultimately a state's sovereign choice whether to initiate BRI projects. The reality in Myanmar is more complex. Since the launch of the BRI in 2013 and indeed even earlier, **Myanmar** has been subject to intense pressure from its larger neighbour to implement proposed Chinese projects. On numerous occasions – both through the Chinese ambassador and personally – paramount leader **Xi Jinping** has urged Myanmar to speed up project implementation. This pressure is no small thing given **China's** ongoing support for several ethnic insurgencies in the country's northern and eastern regions.

While Chinese investment in certain areas is undoubtedly welcome, Myanmar has thus far mostly opted for a cautious approach. When Xi visited Myanmar this time last year, only nine out of 40 proposed BRI projects were actually underway. Despite a litany of MOUs, Naypyidaw has consistently refrained from upgrading proposed Chinese projects to priority status. Aside from dragging its feet, in 2018 Myanmar upped its stake in the highly strategic deep-water Indian Ocean port of Kyaukphyu – which China seeks to use to import oil via Yunnan Province – and cut the project budget by 80 percent. Other tactics include

commissioning third-party reviews of sensitive projects, opening tenders to companies from other countries and even investigating alleged irregularities regarding a Chinese project in Karen State. With anaemic growth due to COVID19 and ties with the West still strained because of the alleged Rohingya genocide, it remains to be seen whether Myanmar's strategy will prove sustainable.