

Dragoman Digest.

23.12.2020

EU and China move towards investment treaty

Even if negotiated, treaty may face ratification hurdles

According to a [report](#) in South China Morning Post, the **EU** and **China** have reached an “in principle” agreement for an investment treaty after six years of negotiations. Despite seeking to style itself as a champion of globalisation, China restricts foreign investment in significant parts of its economy. In what appears to be a substantial concession, China is proposing allowing European companies increased market access in sectors including finance, air travel, hospitals, and water transportation. The automotive, IT and education sectors remain under negotiation.

The deal – which after years of delay China is now pushing to sign by the year’s end – would be a significant coup for Beijing. According to those with knowledge of the talks, the agreement would make it easier for China to invest in Europe’s energy and high-tech sectors. Most importantly, any treaty could also complicate president-elect **Joe Biden**’s likely strategy of working with the EU to tackle China on trade and other issues. For her part, outgoing **German** Chancellor **Angela Merkel** is strongly in favour of the deal, seeing it as a way of modifying China’s behaviour without being forced to take sides with the US. However, there is still some room for scepticism. Over the past six years, both sides have talked up the imminence of a deal. Crucially, China is understood to be resolute in its refusal to agree to the EU’s demands to end the use of forced labour. Any deal will need to be ratified by the European Parliament. Socialist, Democrat and Green groupings have said that they will vote against any agreement that excludes standards preventing forced labour. Despite the optimism of Beijing and Brussels, the investment treaty may still yet remain out of reach.

Jokowi’s ministerial re-shuffle replaces six ministers

Several controversial ministers have been replaced

Indonesia’s President Jokowi has used the opportunity presented by the arrest of two ministers on corruption charges to initiate a significant cabinet reshuffle. Over the past month, Indonesia’s Corruption Eradication Commission (KPK) has arrested both former Maritime Affairs Minister Edhy Prabowo and former Social Affairs Minister Juliari Batubara. Prabowo has been replaced by Sakti Wahyu Trenggono – Jokowi’s campaign team treasurer – while Batubara was replaced by Tri Rismaharini, the current mayor of Surabaya. Rismaharini is highly regarded and may well serve as a vice-presidential running mate on an all PDI-P presidential ticket at the next Presidential election in 2024.

On the health front, Jokowi replaced former Health Minister Terawan Agus Putranto – who notoriously called for prayer to ward off COVID19 – with Budi Gunadi Sadikin. Mr Sadikin heads Indonesia’s national taskforce for economic recovery and previously led Bank Mandiri, one of Indonesia’s best performing state-owned enterprises. Sandiagio Uno, the former vice-governor of Jakarta who ran as deputy in the 2019 election to Jokowi’s rival Prabowo Subianto, has replaced Wishnutama Kusubandio as Tourism and Creative Economy Minister. Former Ambassador to the **US** and **Japan** and a business partner of State Owned Enterprise Minister Erick Thohir, Muhammad Lutfi, replaces Agus Suparmanto as Trade Minister, while Yaqut Quomas has been given the Religious Affairs Minister role. Quomas hails from the more liberal youth-wing of Indonesia’s largest Muslim organisation, Nahdlatul Ulama. His appointment is significant in that he replaces Fachrul Razi, a 4-star general who controversially floated the idea of banning the wearing of face veils on government premises.

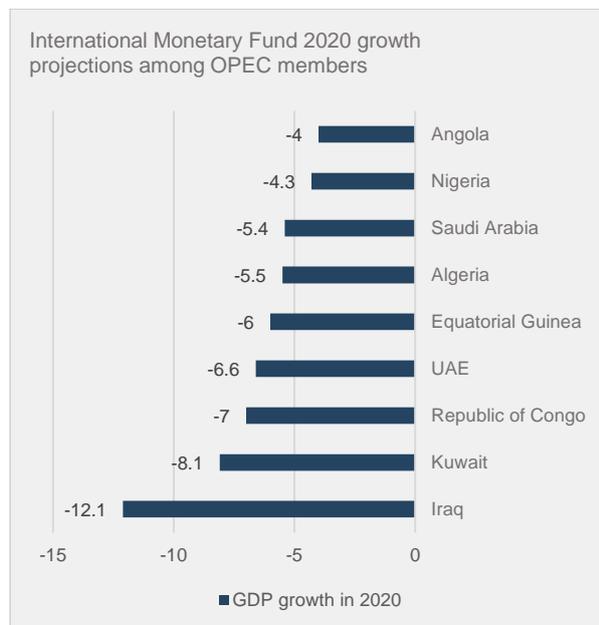
All in all, the changes appear to be a modest net-positive for cabinet competency and integrity at a time when Indonesia faces considerable challenge as a result of the effects of the pandemic and economic dislocation.

Iraq's liquidity crisis is spiralling out of control

Economic desperation jeopardises Iraq's future in OPEC

Iraq has [devalued](#) its local currency by 22 percent against the US dollar to protect its dwindling foreign exchange (FX) reserves and avoid a severe budget deficit. Iraq's FX reserves had fallen to US\$53 billion by September, as Iraq has been [borrowing](#) heavily to pay three million Iraqi public sector salaries. The public sector is the largest employer in Iraq and most of the population are reliant on government contracts or salaries for survival. However, expenditure on public sector salaries alone is 20 percent greater than the country's current oil revenues. Iraq has been posting a monthly deficit of US\$3.5 to US\$4.5 billion. The economic crisis has been spurred by the collapse in oil demand due to COVID19 and OPEC mandated oil quotas. Oil revenues traditionally account for 92 percent of Iraq's budget.

The International Monetary Fund projects Iraq's economy will contract by 12.1 percent this year. This is a deeper contraction than any other OPEC member with a production quota (see table below). Protestors have been urging the government to ignore OPEC+ output cuts. OPEC+ decided this month that Iraq could increase output by 55,000 barrels per day. Concessions were made to Iraq as it had been agitating for planned production increases to go ahead. These concessions will do little to alleviate its liquidity crisis. OPEC+ oil ministers will meet in the first week of each month to decide on further changes to output. Iraq's oil minister Ihsan Ismaael will likely pressure other leaders at the next meeting to allow it further increases to production. The output cuts are arguably too deep to sustain and could spur financial collapse and further political unrest. Iraq may, as it becomes increasingly desperate, ultimately be forced to consider breaking ranks with the cartel.



India: an overlooked player in the vaccine diplomacy game

Vaccine disbursement will be key to consolidating India's regional influence

In discussions of “vaccine diplomacy”, **India** is a country that rarely warrants a mention. Typically, the focus has been on how **China**, **Russia** the **EU** (primarily through its funding of the WHO-led COVAX Facility) and perhaps the **US** under president-elect **Joe Biden**, will use the disbursement of the vaccine to increase their global influence. Nevertheless, India will be key in global efforts to manufacture and distribute the vaccine and will be well positioned to conduct vaccine diplomacy in its own right.

As things currently stand, India is home to 60 percent of global vaccine manufacturing capacity. The Serum Institute (SII) of India alone manufactures 1.5 billion vaccine doses per annum. Although India's first priority will be vaccinating a considerable portion of its 1.3 billion strong population, it has clearly set its sights offshore. The SII – which will manufacture AstraZeneca's vaccine – has [pledged](#) 50 percent of what it manufactures to low and middle-income countries, capping dosage prices at US\$3 apiece. India has specifically pledged to make distributing the vaccines to its near neighbours including **Bangladesh**, **Bhutan**, the **Maldives**, **Nepal** and **Myanmar** its “first priority”. With the exception of Bhutan – which does not have official diplomatic relations with China – these are all nations where Beijing has made inroads over the last few years. With the tussle for regional influence unlikely to decelerate, India will be hoping that its generosity pays strategic dividends.

France and Russia deploy rival troll farms across Africa

France and Russian trolls target users across the Sahel

France and **Russia** have used Facebook to spread [disinformation campaigns](#) in the **Central African Republic** (CAR) prior to its presidential elections on 27 December. Facebook uncovered and removed over 300 fake accounts and pages linked to France and Russia. The [campaigns](#) also targeted users in **Algeria**, **Cameroon**, **Libya** and **Sudan**.

This is the first case of a coordinated campaign where there was active engagement between the two troll farms. Fake accounts attempted to add each other as friends and commented on each other's posts. France sees Russia and President **Touadéra** as a threat to its interests in the region. French accounts have focused on positive commentary about France's military which has been deployed to fight Islamist militias across the Sahel. Some French accounts claimed that Russia was interfering in the upcoming election. Conversely, Russian accounts promoted Touadéra's candidacy. Touadéra has granted Russia privileged access to gold and diamond reserves and awarded it large military contracts. One post warned that CAR may be “ravaged by the tyrants [France]” if Touadéra was not re-elected.

Competition for influence between state actors may increasingly be conducted in cyberspace. This risks amplifying the spread of misinformation and unsourced rumours – a clear challenge to fair and free elections. Companies like Facebook may come under increasing pressure to play a more active role in monitoring their platforms to counter state actors' weaponisation of social media.

Towards a Russia-China alliance?

Putin's comments may be more rhetoric than substance

Russian President **Vladimir Putin** caused a flurry of speculation when on 22 October, he declared that a Russia-**China** military alliance was “theoretically [quite possible](#)”. Putin's statement departed from precedent, in that both Russian and Chinese leaders have consistently denied that an alliance was ever on the agenda. This is despite the deepening cooperation between the two nations across multiple domains since Western sanctions were

imposed on Russia in 2014. For Western nations – the **US** in particular – the prospect of a China-Russia alliance is quite startlingly, evoking fears of hypothetically being forced to fight a war on two fronts.

However, more than anything else, Putin's comments were likely directed as a warning to the West of what could occur if relations deteriorate further. Despite some common interests – namely opposing liberal internationalism and US hegemony – Russia and China have different priorities and want to maintain strategic autonomy. Tellingly, Russia has not supported China's expansive claims in the South China Sea, nor has China explicitly supported Russia's annexation of Crimea. Scratch beneath the surface and Russia is anxious about China's intentions in Central Asia, the Arctic and even its own Far East – which was part of the Qing Empire until several perceivably "unequal" treaties in the mid-nineteenth century. Curiously for so-called allies, Russia is the biggest military supplier of several of two of China's main Asian rivals, **India** and **Vietnam**. Although many in the West would desperately like to drive a wedge between Russia and China, the trade-offs required to achieve this – such as deferring to Russian interests in Eastern Europe – could simply be too high. Russia's relationship with China may ultimately remain somewhere between quasi-ally and competitor.