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## **China makes progress on carbon trading**

*Carbon market expected to begin operating in the second quarter*

The Chinese Ministry of Ecology and Environment has issued rules to govern a national carbon trading regime. The rules lay out the regulatory framework for a long-awaited national market, as the world's largest polluter continues to make steps to reduce emissions.

In 2011 **China** introduced a pilot carbon trading scheme in selected cities including Beijing, Shanghai and Shenzhen, but a unified carbon market has yet to develop. According to a senior Chinese [analyst](#), the national market is expected to begin operating in the second quarter of 2021.

The move will support President Xi's pledge that China will reach peak CO2 emissions before 2030 and achieve carbon neutrality by 2060. The announcement also parallels net-zero commitments made by other nations, including South Korea, Japan and the EU, which we have covered previously.

The Chinese announcement, coupled with President-elect Joe Biden securing control of the **US** Senate after the Georgia Senate runoffs this week, further indicates that global action on climate change is set to accelerate.

## **Gojek-Tokopedia merger may portend a race to scale for digital wallet companies in Southeast Asia**

*Indonesia a battleground in fight for share of digital payment pie*

The rumoured [merger](#) of **Indonesian** ride-sharing and e-commerce companies Gojek and Tokopedia may shift the dynamics of the digital economy in Southeast Asia. The group will reportedly use Gojek's Gopay as its primary payment platform to service a combined 138 million monthly active users. The digital payment sector in Indonesia is lucrative. 9 out of 10 internet users in Indonesia reportedly use e-wallets to make purchases. There is room for significant further growth. Indonesia has a smartphone penetration rate of 60 percent. Its middle class has grown to 20 percent of the population of 267 million. Only 13 percent of micro, small and medium enterprises currently have an e-commerce presence. President **Widodo** is seeking to integrate more microbusinesses into the digital economy by incentivising digital payment solutions.

Foreign investment and mergers are enabling Indonesian firms to develop their own [unique payment systems](#). Google, Temasek Holdings Pte and Sequoia Capital India have invested in Tokopedia and Gojek. Tencent and Singapore's sovereign wealth fund GIC are shareholders in Gojek and Softbank is a shareholder in Tokopedia. Singapore's Grab invested in LinkAja in November last year and is also a major shareholder in OVO. The rapid growth of the e-payments sector has also encouraged state-owned banks and companies to build their own online payment service offerings. LinkAja is backed by Telkomsel, the four state-owned banks and Pertamina.

E-wallet payments are not yet dominant in day-to-day financial transactions. However, the growing number of players in the market may foreshadow a battle for the Indonesian market and eventually, a race to scale to enter other regional markets like Malaysia and Singapore. With government support and significant foreign investment interest, Indonesian tech companies may be able to challenge regional behemoths like China's Alipay.

## **The challenge of Venezuela**

### *A political minefield for the incoming Biden Administration*

With less than three weeks until President-Elect Joe Biden is sworn in, **Venezuela** is emerging as one of his biggest regional foreign policy challenges. While the political, economic and humanitarian crisis in the country is deepening, Venezuelan President Nicolás Maduro has cemented his position.

On 5 January, Juan Guaidó, the internationally recognised Venezuelan opposition leader, lost his presidency of the National Assembly, and with it the legal basis for his claim to be Venezuela's interim leader. The impact is already being felt. The EU has issued a [statement](#) that referred to Guaidó only as one of the "representatives of the outgoing National Assembly". However, the US has [reaffirmed](#) its support and dismissed the December 6 National Assembly elections as fraudulent.

Domestic politics further complicate matters for Biden. [Pundits](#) say that a significant factor in President Trump's surprise victory in Florida was his hard-line policies against Venezuela and Cuba. With a large proportion of South Florida's Latino population having fled Venezuela and Cuba, anti-regime sentiment is strong.

Biden will have to tread carefully to avoid domestic political ramifications and what an EU diplomat described as the creation of a failed state on the edge of the Caribbean.

## **To Delist, or not to Delist**

### *NYSE flip-flops on Chinese delistings*

The New York Stock Exchange has pulled off an extraordinary double backflip regarding the decision to delist three **Chinese** telecom companies. After deciding to delist the three companies on New Year's Day, the NYSE reversed course and announced on Monday that it would no longer proceed with the delisting. However, less than 24 hours later the stock exchange reverted to its initial decision and will proceed with the delistings.

The flip-flop came following "new specific guidance" from the US Treasury Department and [criticism](#) from Treasury Secretary Steve Mnuchin. The delisting comes as a result of a recent Executive Order that bans Americans from investing in companies that the US Government says supply and support China's military, intelligence and security services. The US Government's banned list currently has 35 companies – including China's largest chip maker – in industries such as surveillance, aerospace, shipbuilding, construction and technology.

The NYSE will delist China Mobile Ltd, China Telecom Corp and China Unicom Hong Kong Ltd on 11 January. [Bloomberg](#) analysts have predicted that a second wave of delistings could be on the horizon and that oil majors could be next. Companies considered particularly at risk include CNOOC (China's largest offshore oil producer), PetroChina, China Petroleum and Chemical Corp (also known as Sinopec). In response, the Chinese government has threatened to blacklist US companies. Regardless of whether the NYSE delists the firms or not, the development is a further negative factor in US-China relations.

## **Northern Europe's military build-up triggered by Russian aggression**

### *Sweden amps up rearmament programme*

President **Putin's** assertive foreign policy and **Russia's** brazen attacks on **Ukraine** and **Georgia** have served as [warning signs](#) to Europe. **Sweden** has reactivated a programme of rearmament based on what its defence minister Peter Hultqvist described as a "new geopolitical security situation." It has overturned its traditionally non-aligned defence policy to

build capabilities to respond to a Russian attack. In December, it [authorised](#) a 50 percent expansion of its armed forces to 90,000 troops by 2025. It plans to boost annual military spending by US\$3.1 billion over the next five years and upgrade its defence infrastructure. This represents the biggest increase to spending in 70 years. Sweden is [edging](#) toward becoming a member of NATO. Its parliament voted to keep the option open to join the alliance in future. NATO recommends its members commit a minimum of 2 percent of their GDP to spending on defence. Sweden's new defence policy takes its military expenditure to 1.6 percent of GDP. This brings its spending closer to other countries in the region like **Poland** which spent 2.4 percent of its GDP on defence in 2020 and **Germany** which spent 1.6 percent.

NATO defence ministers have named Russia as the "greatest threat to the alliance." NATO has agreed to strengthen its military capability and have at least 30,000 troops and military infrastructure ready to respond to any Russian threat. 4,500 NATO soldiers are currently positioned in the Baltic States and **Poland**. The alliance has carried out joint military exercises alongside Sweden in Northern Europe. A major US-led military exercise 'Defender Europe' conducted last year deployed 37,000 soldiers, 85 tanks and heavy machinery to test European "strategic readiness." This multilateral show of force in Russia's backyard sent a clear warning to Moscow. Russia responded by organising mock sea landings and exercises in the Baltic. Although there are frequent reports of Russian incursions into Swedish airspace and waters the risk of an attack appears low. Northern Europe's relations with Russia however are likely to continue to be tense.

### **Afghan–Pakistani border fence completed**

*Pakistani Government aims to keep terrorists out*

For the first time since the border was established by the British in 1893, a fence has been erected along the 2,600-kilometre line separating **Afghanistan** and **Pakistan**. Long ignored by tribesmen, traders and guerrillas on either side, the border has been somewhat fortified by the Pakistani Government when the porosity became undesirable.

The absence of a controlled border has historically been seen as an advantage to the Pakistani Government. Following the Soviet invasion of Afghanistan, the US moved weapons across the frontier to rebels. When the US invaded Afghanistan, Taliban fighters mounted hit-and-run attacks from havens in Pakistan.

The US has long advocated for some form of barrier to inhibit the cross-border flow of insurgents. However, a shift in the historic pattern has girded Pakistan to action. Since 2016, Pakistani terrorist group Tehreek-e-Taliban (TTP) has launched attacks in its home country before retreating to safety in Afghanistan.

While Pakistani military officials claim that the fence has reduced TTP attacks, the biggest impact has been on residents of the border lands who now need passports to visit relatives. Complaints of long waits and sticky-fingered officials have already begun. Whether the fence will be effective in reducing terrorist movements remains to be seen. We are not holding our breath!