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Monetary policy tightening in China – a delicate balance

The PBoC is faced with the challenge of staving off both financial and political risk

The People's Bank of **China** (PBoC) must walk the [tightrope](#) between backing China's economic recovery and managing risks to the financial system. A programme of monetary policy tightening to address China's loose liquidity and high levels of corporate leverage might be imminent after the PBoC's recent [adjustments](#). The PBoC withdrew US\$12 billion from the banking system last Wednesday. Markets were spooked and the overnight interbank cash rate surged from 2.5 to 3.3 percent. The PBoC hastily injected US\$19.3 billion to assuage investor concern. The PBoC has previously [promised](#) that any tightening will be gradual.

China's de-risking has so far focused on reducing leverage in "hot" sectors like [real-estate](#). On Tuesday, property developer China Fortune [defaulted](#) on US\$8.2 billion worth of debt. This is the latest of a slew of high-profile [corporate bond defaults](#) that suggest that the Chinese Communist Party is no longer prepared to always prevent corporate bond defaults – with US\$30.5 billion corporate bonds having been postponed or cancelled since November.

The biggest hazard is that tightening monetary policy leads to exaggerated default problems. This may have political consequences if unemployment rises and personal financial security declines.

Thailand threatens to scupper Laos' Mekong dreams

The declining health of the Mekong is one of the region's most far-reaching political issues

Defying diplomatic protocol and precedent, **Thailand** has publicly criticised **Laos'** plans to build yet another dam on its segment of the Mekong River. The project in question is the US\$2 billion Sanakham Dam which is currently being developed by **Chinese** company China Datang. Thailand has raised specific concerns about the environmental impacts of the dam – to be built just 2km from the Thai border – and its potential to exacerbate water security issues by interfering with the flow of the Mekong. China and Laos' dam building sprees are increasingly raising the ire of downstream countries like **Vietnam**, whose agricultural productivity is heavily reliant on the health of the Mekong.

Thailand is however, not without leverage. Bangkok has threatened to refrain from signing a power purchasing agreement with Laotian authorities, without which the financial viability of the Sanakham Dam appears highly uncertain. Thailand's growing scepticism on the merits of Mekong hydropower – fuelled in part by the consolidation of its own electricity reserves – may prove to be a thorn in the side of Laos' vision to become the "battery of Southeast Asia". Laos has bet heavily on hydropower for its development, having amassed almost \$US12 billion in foreign debt – around half of it owed to China. Without a Plan B, Laos may find itself increasingly reliant on Chinese largesse.

Bolsonaro's allies elected to Brazil's Congress

Lira and Pacheco have pledged to protect Bolsonaro from impeachment

The election of [Arthur Lira](#) and Rodrigo Pacheco – both allies of President **Bolsonaro** – to **Brazil's** Congress may pay political dividends for the Brazilian President. Lira and Pacheco were early frontrunners for the respective presidencies of the lower and upper house. Both were strategically supported by Bolsonaro. The Brazilian President promised influential appointments to Lira's allies and authorised US\$550 million worth of "pork barrel" spending –

which will largely benefit the districts of centre-right allies of Lira and Pacheco. As leader of the lower house, Lira will be responsible for initiating any impeachment proceedings and will also control Brazil's legislative agenda and economic reform. Already, both Lira and Pacheco have made it clear that they would be against an impeachment trial.

The Bolsonaro Government's COVID cash transfer programme will be high on the agenda for the two speakers. The government has been subject to criticism for its COVID spending spree, posting a record budget deficit of 11.5 percent of GDP in 2020. That was off the back of US\$82 billion worth of transfer payments – worth 5 per cent of GDP. Gross debt in 2020 ballooned to 89.3 percent of GDP. Lira has promised to ensure government expenditure remains below Brazil's [constitutionally mandated spending ceiling](#). 2021 spending is capped at US\$275 billion. Pacheco on the other hand, has indicated he may support the extension or increase of the payments. After Bolsonaro extended the payment programme last year, his approval increased from 32 percent in June to 40 percent by October.

The proportion of Brazilians that rate Bolsonaro as a good or great president is now at 31 percent against 37 percent in December, according to a poll conducted by DataFolha. The percentage of respondents who view him as bad or terrible rose to 40 percent from 32 percent over the same period, with a Presidential election due next year. This is the lowest since he took office in 2019. Extending the cash transfer initiative appears an enticing option. However, even with Pacheco's backing, Bolsonaro may struggle to pass additional cash payments as he does not have a coalition in Congress. Pacheco and Lira may be powerless to protect Bolsonaro from impeachment. Over 60 requests for his removal have been filed by Congress. The appointment of his allies may reduce the risk of Bolsonaro's impeachment, but it is unlikely to remove it completely.

Myanmar military coup

Exact rationale for coup remains somewhat unclear

Having flagged before the recent election its discontent with some election-related activities of the Government-directed Electoral Commission, **Myanmar's** military detained on Monday the President **Win Myint**, NLD leader **Aung San Suu Kyi** (ASSK) and a variety of political and community leaders before installing its Senior General, Min Aung Hlaing, as leader. Myanmar was under military rule from 1962 until an election in 2012 swept the NLD to power. It is difficult to suggest where the Tatmadaw – as the military is known – will go from here, though it has indicated that an election is planned in a year.

While there was discontent with the poor performance of the first elected government since 1962, the NLD was nevertheless overwhelmingly successful in the elections held last November and – despite its relative unpopularity – increased its representation. The military-backed USDP won a bare handful of seats in each of the two houses of parliament. Given the angry public response to the coup, it seems highly unlikely that any fair election in a year will produce anything different.

On its face, the intervention looks more like a move to cement Min Aung Hlaing's position, given that his rumoured ambition to become President was denied and he was, formally, due to retire. This would suggest that the military-initiated return to elected government has ended with no clear rationale for its restoration.

Despite the fact that ASSK was held for years in detention before her election, the popular symbol of resistance to the military was in fact openly supportive of the Tatmadaw when her party won power. ASSK's defence of the Tatmadaw's actions in Rakhine state and the

resulting oppression of the Rohingya people attracted international criticism and lost her much international support.

While the **US** and other nations have flagged unspecified sanctions, **China** acted to prevent condemnation of the Tatmadaw at the UN Security Council. Yet China's role is another piece in what is a puzzling picture. ASSK had given every indication of embracing China as her former friends in the US and Europe became critics. For his part, Min Aung Hlaing had publicly criticised China's role in supporting militant ethnic action on their mutual border. China's influential diplomat and State Counsellor Wang Yi visited Myanmar in January and met privately – and separately – with both ASSK and Min Aung Hlaing. It may be that the military has demonstrated yet again that its first priority is self-interest, but as is often the case with Myanmar the motivations and influences driving events are far from clear.

Trong re-confirmed as General Secretary of Vietnam's Communist Party

Unprecedented decision heralds more continuity

After meeting for its 13th National Congress, **Vietnam's** Communist Party opted to give General Secretary **Nguyen Phu Trong** a third term. The decision is notable in several ways. Firstly, according to the Party's Constitution, general secretaries can only serve two terms. Trong – who the Party has made an “exception” for – will thus be the first general secretary to serve a third term since Vietnam's reunification in 1976. Trong had also widely been expected to retire because of his advanced age – he will turn 77 this year despite the traditional 65-year age limit – and his ill-health after suffering a stroke in 2019.

Ultimately, it seems that the need to maintain stability in an uncertain international environment helped convince Party delegates to give Trong a third term. Trong also seems to have been unable – or unwilling – to appoint a successor that he found palatable. Trong's signature policy initiative has been his anti-corruption campaign – which he sees as necessary to ensure the long-term survival of the Party. Trong was reportedly unconvinced that potential successors like current Prime minister Nguyen Xuan Phuc had sufficient mettle to continue with the campaign.

Aside from maintaining the anti-corruption campaign's momentum, expect Trong to continue with his economic liberalisation push – which **Australia** is hoping to benefit from through the [finalisation](#) of an Enhanced Economic Engagement Strategy later this year. With Vietnam unlikely to emulate its northern neighbour **China** in abolishing term-limits, finding a suitable successor will likely be one of Trong's key priorities over the next five years.

China executes former high-profile official

Case raises questions over the efficacy of Xi's anti-corruption campaign

China has executed Lai Xiaomin, the former chairman of China Huarong Asset Management – the country's largest state-owned bad asset manager. Xiaomin is the first official to be executed on corruption charges in over a decade and Chinese officials have warned that more arrests – and possibly executions – are likely to come. Launched in 2012, paramount leader **Xi Jinping's** anti-corruption campaign has ensnared over 120 high-ranking officials and led to more than 100,000 indictments. Corruption is a sensitive political issue in China, having helped precipitate the Tiananmen Square protests.

However, as well as eliminating graft, Xi's campaign has clearly also had political motives – namely the elimination of potential opponents – and has done little to promote independent oversight. Xiaomin's rap sheet is extensive, including accusations of keeping more than 100 mistresses, accepting US\$267 million in bribes and being implicated in the disappearance of

over US\$1.6 billion worth of state assets. Insiders have suggested that the sheer extent of Xiaomin's alleged crimes almost certainly suggests the collusion of other senior officials. Xi's 2018 declaration of an "overwhelming victory" over corruption appears to have been somewhat premature.