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Quad cements its role as a fixture of regional politics

Talk of an "Asian NATO" is however, likely overstated

The Quad, comprising **Australia,** the **US**, **Japan** and **India,** slowly gathered momentum under the Trump Administration after being re-constituted in 2017. Nonetheless, former Secretary of State Mike Pompeo's calls last year to "institutionalise" the Quad appeared to fall on deaf ears. However, after last weekend's first ever Quad leaders meeting, it is difficult to escape the conclusion that the mechanism is now indeed, institutionalised. The four leaders issued the Quad's first ever joint statement, whilst also formally agreeing to hold regular senior officials meetings, annual foreign minister meetings and an in-person leaders' summit by the end of 2021.

Unlike his predecessor, President **Biden** and his administration are perceived to be more committed to the security of their allies. The Quad has also undergone something of a discursive shift. The joint statement issued by leaders does not mention **China** once, with cooperation on vaccines, emerging technologies and climate change being the focus. This is important on several levels. By eschewing the language of containment, the US has made deeper engagement with the Quad more palatable for India and Japan – and likely also ASEAN, whose support will be crucial for any attempts to check China's rise. By focusing on issues like vaccine access and climate change, the Quad leaders have also signalled their acknowledgement that competing with China requires more than just security cooperation.

For the same reason as a tonal shift was necessary to help smooth the way for a higher level of Indian and Japanese participation, the Quad seems unlikely to evolve into a formalised security alliance à la NATO anytime soon. However, a repeat of 2008 – where the decision was taken to jettison the grouping to placate Beijing – appears highly improbable. Whether the Quad will be able to make an effective difference on the ground – or indeed on the water – remains to be seen.

EU unveils ESG disclosure regulations

New regulations may presage a global standardisation of ESG metrics

The European Commission's introduction of its Sustainable Finance Disclosure Regulations – which came into effect on March 10 – may foreshadow a global standardisation of environmental, social and governance (ESG) disclosures. The rules mandate the transparent disclosure of ESG risks and evidence of compliance for financial institutions operating inside the EU's borders. The rules also introduce a standard and consistent system of reporting indicators – something that has been lacking in ESG funds. Asset managers' first reporting deadline will be in January 2022.

The regulation seeks to ensure that financial institutions are not simply rebranding their funds – or "greenwashing" – to capitalise on the increasing allocation of investor capital towards ESG products. Total ESG assets under management globally is above US$1.7 trillion, up 50 percent over 2020. The EU currently dominates the global movement and attracted 80 percent of the US$15.3 billion of global ESG fund inflows in the fourth quarter of 2020. The **US** is currently in second place. The trend is also accelerating elsewhere. Over AU$22.5 billion (US$17.4) was being held in "sustainable investments" in **Australia** and **New Zealand** by December 2020 – a 20 percent year-on-year increase.

Unlike in the EU, there are not yet any binding regulations in the US, **UK** or Australia. However, the Australian Government intends to produce an annual report that tracks the progress of listed companies on their stated carbon abatement targets. The report is aimed at boosting transparency and accountability. The ambitious climate abatement goals of major global economies may drive stricter regulations as governments seek to channel capital from private investors to the energy transition. **China**'s first ESG disclosure regulations – and the world's second - were introduced in the city of Shenzhen on March 1. Global coordination is critical to ensure comparability of company ESG performance metrics.

Erdoğan promises to ditch unorthodox monetary policy and regain investor confidence

Shakeup of heads of financial institutions is a positive sign

Whilst there are clear questions about his true intent, **Turkey**'s President **Erdoğan** recently pledged to reduce inflation below 10 percent from the current level of 15.6 percent. In a further sign that Turkey may be returning to more orthodox fiscal and monetary policy, he also pledged to form an independent financial stability committee, reform the public tender process and reduce the budget deficit to 3.5 percent of GDP – down from his previous target of 4.3 percent. This appears to both be a much-needed move and a stark reversal of Erdoğan's unconventional approach to monetary policy. He has claimed that higher interest rates spur inflation. The Turkish government has burnt through US$128 billion of its foreign exchange (FX) reserves in two years. When swap liabilities are taken into account, the Central Bank currently has a negative real FX reserve of US$45 billion.

Much will depend on whether Erdoğan is prepared to accept the advice of the newly appointed Finance Minister Lutfi Elvan and Central Bank Governor Naci Agbal. Erdoğan has a history of political interference in Turkey's monetary policy. The previous two Governors were ousted after they did not comply with his unorthodox approach. He also appointed his son-in-law as Finance Minister. The Central Bank is meeting next week to decide whether to further hike interest rates, currently at 17 percent. Whether Erdoğan intervenes will be a test of his intent. The 2023 Turkish general election is also looming on the horizon. Austerity is rarely a winning policy and Erdoğan is certain to be aware of this.

US shifts its military posture to confront China

Washington moves towards a more mobile and asymmetrical force posture

While the **US** still has a qualitative military edge over **China**, the gap between American and Chinese assets deployed in Asia is growing ever more in Beijing's favour. By 2025, China will have more than six times as many submarines and nine times as many warships deployed in Asia as the US. China's estimated network of almost 2,000 land-based missiles would potentially make it very difficult for the US or it allies to shift additional assets into hypothetical conflict zones around **Taiwan**, the South China Sea or the Senkaku Islands.

Amidst these dire projections, the US appears to be quickly changing tack. Part of this involves copying China's own playbook. The Indo-Pacific Command has proposed establishing a network of precision missiles along the so-called first-island chain, stretching from **Japan** to the Malaysia Peninsula. Instead of being solely concentrated in **South Korea**, **Australia**, Guam and Japan, US military assets and personnel would be dispersed to smaller islands throughout the Indo-Pacific. As part of its global posture review, the US is also reportedly considering effectively transforming the US Marine Corp into a sea-based guerrilla warfare force. In a hypothetical conflict with China, the Marine Corp would, from waters within the South China Sea, attack Chinese targets with armed drones, offensive cyber capabilities, anti-air and potentially even anti-ship missiles. Rather than large US aircraft carriers, China's militarised islands in the South China Sea would become the proverbial sitting ducks.

Clearly however, this approach is not without potential pitfalls. Any country agreeing to host US missiles or additional military assets would risk becoming the target of Chinese economic – or indeed military – coercion. Overseeing the successful evolution of the US' force posture will serve as a crucial test of President **Biden** and his Administration's diplomatic abilities.

Green shoots emerge along China's Belt and Road Initiative (BRI)
Concrete – albeit still relatively modest – signs emerge of transition toward a greener BRI
While Western countries – followed to varying extents by **Japan** and **South Korea** – have moved to phase out coal development financing, **China** has come to be viewed as something of a laggard. On some counts, over 70 percent of coal plants being built outside China are being funded by Chinese banks, many of which are state-owned.

However, in keeping with its own energy transition efforts, China slowly appears to be improving its green credentials abroad. 2020 was the first year since the BRI's launch that funding for renewable projects exceeded fossil fuel developments. Wind, solar and hydro attracted US$11 billion last year, amounting to some 57 percent of total BRI energy funding for 2020. Chinese officials – including from the Ministry of Ecology and Environment and the National Development and Reform Commission – have publicly called on Chinese banks to fund green projects.

Of course, public exhortations are different from moving to explicitly phase-out overseas coal funding. Last week however, China's embassy in **Bangladesh** informed Dhaka that Chinese entities would no longer fund projects with "high pollution and high energy consumption" such as "coal mining [and] coal-fired power stations." Climate advocates will be hoping that the Bangladesh coal ban portends a broader shift along the BRI.