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Israel targets Iranian petrodollars

Attacks may have limited impact on Iran's capacity to fund its proxies in the region

Israel's recent attack on Iranian oil tankers bound for **Syria** is part of a broader clandestine campaign that began in late 2019, aimed at undermining Iran's support for proxies in **Lebanon, Syria, Yemen** and **Iraq**. In addition to attacks on Iranian shipping, Israel has also conducted hundreds of airstrikes, largely in Syria. The campaign has reportedly cost Iran billions of dollars in oil revenues that it uses to fund and provide weapons for groups like Hezbollah and the Houthis.

However, the success of Israel's efforts may be partly offset by Iran's crude exports to **China**. China is reportedly circumventing **US** sanctions using ship-to-ship transfers in the Middle East or in waters off **Singapore, Malaysia** and **Indonesia**. This method of 'transshipment' obscures the product's origin – with Iranian oil often labelled Omani or Middle Eastern oil, or Malaysian blend. Tellingly, Chinese purchases from Oman and Malaysia have surged. Shipments from Malaysia rose by 58 percent to 1.64 million tonnes in January, while imports from Oman rose by 16 percent to 4.18 million tonnes in February. The **Biden** administration has threatened "secondary sanctions" on Chinese energy companies in response.

Iran's support for proxies in the region has been a key point of contention for Israel. Prime Minister **Netanyahu** is vehemently opposed to President Biden's plans to return to the Iran nuclear deal. Israel is currently not included in the proposal for the first round of negotiations and may yet act as a spoiler if it feels its interests are threatened.

Political risk of unconventional monetary policy

Central banks may end up contradicting their own guidance if economies rebound faster than expected

With interest rates at their effective lower bounds, central banks around the world have increasingly turned to unconventional monetary policy tools. The **US** Federal Reserve, for example, has pledged to continue its bond buying program and maintain interest rates "near zero" until 2024. Similarly, the European Central Bank expects to maintain its €1.85 trillion (US\$2.2 trillion) bond purchase program until March 2022, while **South Africa's** Reserve Bank has pledged to hold rates at 3.5 percent until early 2022. The Reserve Bank of Australia plans to maintain its 0.1 percent cash rate until "at least" 2024. RBA Governor Philip Lowe has said that the policy is "transparency" not "forward guidance," in an attempt to remind investors that the RBA's plan is not a promise.

Nonetheless, any change to the stated approach arguably carries risk, as pointed out by economist Warren Hogan in the AFR this week. **Brazil's** central bank adopted a forward guidance strategy in August last year to keep rates low for a "long time." In January 2021 however, it withdrew its guidance and raised interest rates by 75 basis points to 2.75 percent due to inflationary pressures. With unprecedented levels of government stimulus being distributed to businesses and households globally, central banks and investors are keeping a close eye on inflation. In contradicting previous guidance – even in the face of a changing economic background – central banks may lose credibility and the confidence of investors, further limiting the arsenal of tools at their disposal.

India inches towards 2050 net-zero target

The plausibility of such a target is uncertain

To the surprise of some, **India's** top officials are reportedly seriously considering pursuing net-zero emissions by 2050 following the lead of other economies. There is even talk of a 2047 target to coincide with the 100th anniversary of India's independence. An announcement is likely to be made before or shortly after 22 April, when **US** President **Joe Biden** is set to convene world leaders for an Earth Day Summit.

Setting a 2050 – or indeed 2047 – target, might well be more about optics than substance, notably putting New Delhi out in front of **China's** 2060 target. Reports suggest that little rigorous analytical work has yet been conducted as to how New Delhi could feasibly achieve the goal. According to the International Energy Agency, a mid-2060s target date is far more plausible. To its credit, India's grid has seen an influx of renewables in recent years. New Delhi's plan to increase its renewables capacity fivefold to 450GW by 2030 has won praise. If executed successfully, even a mid-2060s target would significantly improve the world's chances of keeping average temperature rises to below 2°C.

Serious moves to decarbonise India's economy may be both a blessing and a curse for **Australia**. On the one hand, India – and South Asia more broadly – has acted as a refuge for Australian coal excluded from the Chinese market. However, a greener Indian market may also be a boon for next generation Australian exports, notably green hydrogen and rare earths used in green tech manufacturing.

Duterte's post-2022 political plans

Duterte's economic record has been, at very best, mixed

Under the **Philippine's** Constitution, President **Rodrigo Duterte** is limited to serving one term – meaning that he must step down by 2022. However, Duterte clearly has a taste for public office and, with his approval ratings hovering at around 90 percent, is contemplating various plans to stay in power. One proposal floated by Duterte's PDP-Laban Party is for the constitution to be changed to allow Duterte to run for vice-president in 2022. In what appears to be part of an emerging regional trend towards dynastic politics, Duterte's daughter Sara Duterte is also considering a presidential run.

The economic implications of an extended Duterte reign are uncertain. The Filipino President's handling of COVID19 has been roundly criticised and helped precipitate a 9.5 percent economic contraction. Duterte's eagerness to get notoriously slow infrastructure projects off the ground has come at the expense of accountability. Levels of corruption have consequently grown, leading the Philippines to fall 20 spots to 115th in Transparency International's corruption perceptions index.

However, Duterte's plan to loosen his country's foreign investment requirements – currently some of the most restrictive in Asia – may prove to be a silver lining. The local economy is dominated by conglomerates, with foreign ownership capped at 40 percent in most sectors. Although Duterte effectively controls the House, the Senate and local business interests have responded to the proposed changes to foreign investment laws with a mixture of ambivalence and hostility. Duterte may need more time to shepherd through the amendments and enact other measures to liberalise the Filipino economy.

US seeks to broaden the remit of its alliance with South Korea

However, the Moon Administration is extremely reluctant to provoke its larger neighbour

Though the exact policy emphasis has shifted over time, **South Korea** has traditionally viewed its alliance with the **US** through the prism of **North Korea**. As concerns over **China's** rise have overshadowed the threat posed by North Korea, Washington has pushed Seoul to do more to maintain regional security. In response to such requests, South Korea has

traditionally demurred. China is, after all, Seoul's largest trading partner and North Korea's only patron.

This dynamic was on full display when Defense Secretary Lloyd Austin and Secretary of State Anthony Blinken travelled to Seoul for talks with their South Korean counterparts. Despite the clear wishes of the US for South Korea to take a stronger line on Beijing, China was not mentioned once in the joint-statement released at the end of the talks. Seoul also reportedly rebuffed an explicit, private request by Austin for Seoul to involve itself in the Quad initiative.

However, in recognition of the US' ongoing importance to the security of the Korean peninsula, Seoul did appear to give ground on some issues. Despite Korea-**Japan** ties being at a historic low, the joint-statement reaffirmed the importance of trilateral US-Japan-South Korea security cooperation. Seoul also pledged to explore synergies between its regional "New Southern Policy" and the US' free and open Indo-Pacific vision. Privately, South Korean officials also promised to explore indirect ways of supporting the Quad, highlighting recent efforts to enhance security cooperation with **Australia, India** and NATO. President **Joe Biden** will clearly have to thread the needle in balancing the dual and sometimes competing imperatives of listening to allies and building a united front to counter China.

US pushes ahead with \$100b research fund

China appears to be one of the only issues capable of catalysing bipartisanship in Washington

US Senate Majority Leader Chuck Schumer has signalled his intention to bring the US\$100 billion bipartisan Endless Frontier Act to a vote before the end of Spring. The \$100b in public funding will go towards cutting-edge research in ten areas including artificial intelligence, quantum computing, machine learning and advanced energy technology over the next five years. The Act would also create a technology directorate at the National Science Foundation, with the explicit responsibility to identify what is needed to maintain US competitiveness in key technological fields.

The impetus for the US' reversion to industry policy is, of course, **China**. Beijing has in recent years supported its increasingly naked ambitions to dominate the technologies of the future with wads of cash. Speaking in support of the Act, MIT President L. Rafael Reif argued that the scientific funding system in the US is simply not configured to compete with China, claiming the US has focused "more on how to weaken China than on how to strengthen the US". Certainly, the funding provided in the Act has the potential to provide a fillip to US innovation by supporting technological developments that are promising but lack clear short-term commercial applications. However, as China is increasingly finding out – particularly when it comes to semiconductors and aerospace technologies – despite some advantages, top-down technology efforts do not necessarily guarantee success.