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Rising margin lending rates in China may pose stability risk

China may further clamp down on unofficial financial activity and reduce liquidity

Some analysts claim that the institutionalisation of **China**'s stock market has had a stabilising effect on its financial system in contrast to markets with a high level of retail participation like the **US**. According to the China Renaissance Bank, Chinese institutional holdings have increased from about 50 percent of the total market in 2015 to over 70 percent by June 2020. Over the same period, the holdings of Chinese retail investors decreased from approximately 50 percent to 23 percent. Foreign investors now hold roughly 7 percent compared with approximately 2 percent in 2015. The decline in retail investors' shareholding dominance has been spurred on by increased capital controls and regulations that were put in place after the collapse of China's 2014-2015 market bubble.

After the 2015 crash, greater scrutiny was placed on margin lending rates which were viewed as a major driver of the crash. Total monthly margin lending declined significantly in the ensuing years. However, figures from state-owned China Securities Finance Corporation (CSFC) suggest that total margin lending is on the rise again, raising important questions about market stability. Total margin lending increased by 133 percent between January 2020 and 2021 from RMB$924 million to RMB$2.15 billion. Current figures are now higher than 2015 levels. The CSFC recorded margin lending rates of RMB$1.2 billion RMB in June 2015. This is only the officially sanctioned figure. It might be just the tip of the iceberg. The CSFC blacklisted 258 undercover margin lenders in June last year, suggesting that some level of unregulated margin lending has continued. Rising levels of margin lending might by flagged as a risk by top officials at the annual "two sessions" meeting today. Policymakers are to scale back some stimulus policies to control the abundance of liquidity and resume their "deleveraging campaign" to target shadowy banking practices.

Questions surround the efficacy of China's newly minted emissions trading scheme

China's carbon market is unlikely to catalyse large-scale emissions reductions in its current form

At the beginning of last month, **China**'s national emissions trading market officially came online. At face value, the realisation of a unified national emissions trading scheme is an important milestone along the road to achieving paramount leader **Xi Jinping**'s pledge to achieve net neutrality by 2060.

However, there are several potential deficiencies with the scheme in its current shape. As it stands, the carbon market's only participating members will be 2,225 power generators – representing a fraction on China's overall emissions. Instead of employing an absolute cap as the **EU** market does, the Chinese carbon trading market will allocate different caps to different polluters, based on benchmarks including size and carbon intensity. This may incentivise better fuel efficiency but not, necessarily, a shift away from fossil fuels. Then there is the question of enforcement and penalties. The legal framework for enforcing a carbon-trading market is untested. Companies will only be required to pay for 20 percent of the emissions that exceed their cap, while maximum fines for beaches will be capped at just over US$4,600.

Despite the pessimism, it would likely be unrealistic and unfair to expect Chinese regulators – ever the policy experimenters – to introduce a comprehensive trading scheme in one fell swoop. Just like its European counterpart, China's carbon market will evolve progressively over time. As China pivots towards a lower emissions economy, its carbon trading scheme may yet gain serious traction in the 14th Five Year Plan – to be released in full later this month.

US signals a step up in Africa diplomacy

Great power politics is the likely driver of expanded US efforts

Since assuming office last month, **US** Secretary of State Anthony Blinken has made four calls to Africa, speaking to his counterparts in **South Africa**, **Ethiopia**, the **African Union** and **Cape Verde**. Blinken's early level of interest in the continent contrasts with the last administration's cold shoulder approach. To the extent that the Trump Administration did take an interest in Africa, competition with **China** – and to a lesser extent **Russia** – were often the main drivers.

While President Biden's Administration may be more receptive to the continent's own priorities, it too will likely prioritise geopolitical competition. Blinken's overtures to Cape Verde are instructive on this point. Since the negotiation of a Status of Forces Agreement in 2017, the tiny but strategically located Atlantic Ocean nation has frequently played host to US naval and coast guard assets. Though China – with its base in **Djibouti** – has typically shown more interest in the eastern side of Africa, it has also allegedly sought an Atlantic Ocean base in **Namibia**.

Courting Africa's 54 UN votes will also be a priority of Linda Thomas-Greenfield – Biden's Ambassador to the UN and an experienced Africa hand – as the US seeks to counter China's influence at the global body. China has leveraged African support to increase its influence in UN agencies and to defend its human rights record in Hong Kong and Xinjiang. With China representing an increasingly lucrative source of investment and export market for African nations, the US will likely have to come bearing gifts if it expects to make significant breakthroughs.

China and India de-escalate border dispute

Partial disengagement could have implications for India's willingness to engage in the Quad

Over the past couple of weeks, **Indian** and **Chinese** forces have begun withdrawing from the Pangong Tso Lake area – one of several disputed areas along the Sino-Indian border. The withdrawal has been portrayed by some experts as a victory for New Delhi, as China has withdrawn from areas claimed by India. If the withdrawal is indeed an Indian victory it's a partial one, as the two armies are still locked in standoffs on several points in eastern Ladakh – formerly part of Kashmir.

Since the deadly clashes in June last year, India has pursued a multifaceted strategy to incentivise China to withdraw from disputed territories. Aside from economic sanctions and amassing troops and military hardware, India has also reached out to the West and **Japan** – upgrading military ties with the **US**, **Australia** and Tokyo individually, as well as through the Quad. If New Delhi primarily sees engagement with the Quad as a means to secure border concessions from China, India could well prove to be a reluctant future participant now that tensions are easing. The results of a new study suggesting that Chinese malware briefly caused a blackout in Mumbai in October last year may also make India extra cautious about provoking its larger neighbour. Proposals to further elevate the Quad – such as US Secretary of State Anthony Blinken's suggestion to have a Quad leader's meeting – could receive short shrift in New Delhi. Yet, with the Indian military establishment increasingly shifting its posture towards China – especially after last week's cease-fire with **Pakistan** – India seems unlikely to entirely jettison the grouping either.

Sudan-Ethiopia dispute risks becoming a regional power struggle

Regional powers vying for influence may obstruct a long-term solution to the GERD quarrel

Tensions between **Sudan** and **Ethiopia** have escalated further after a major uptick in conflict along the border between the two countries. Sudan claims that Al-Faqsha – an area of land occupied by Ethiopian farmers – is part of its territory. Sudan banned flights over the disputed border area on January 14. The countries are already at odds over the filling and operation of the Grand Ethiopian Renaissance Dam (GERD). The dam is an important part of Ethiopia's development goals – the Ethiopian Government believes the dam will provide electricity for 86 million people. It plans to fill the dam in July. Along with **Egypt,** Sudan sees this as a direct threat to its national security.

The deterioration of relations between the two countries has drawn in regional powers vying for influence in the strategic Horn of Africa. **Saudi Arabia** and the **United Arab Emirates** (UAE) have separately offered to mediate the dispute. The UAE sent a delegation in January to Sudan to discuss the GERD, while Saudi announced in February its plans to mediate a summit in the Kingdom between Egypt, Sudan and Ethiopia. The Gulf's competing offers of diplomacy may be linked to Riyadh and Dubai's quiet battle for primacy in the region. Ethiopia may seek to leverage this dynamic to secure larger investments in return for concessions in negotiations. Despite this, there is no guarantee that meaningful progress will be achieved. There have been regular assertions that a breakthrough is 'imminent' since 2012. Recent **US** efforts to end the dispute appear to have failed. A coordinated Gulf and US deal that addresses the GERD dam, the border dispute as well as the underlying drivers of Sudan-Ethiopia tensions – such as a lack of economic opportunity – may have a more lasting stabilising impact on the bilateral relationship.