

# Dragoman Digest.

16.04.2021

## **Proposed lifting of retirement age causes angst in China**

*There are no easy solutions to China's demographic woes*

A **Chinese** government working report presented to National People's Congress in March proposed raising the retirement age in a "phased manner." Since 1949, the retirement age for public sector or state-owned enterprise employees is 60 for men, 55 for female office workers and 50 for blue collar female workers. With China's population set to almost halve to 730 million by 2100 according to some more [extreme estimates](#), Beijing knows that it must act to shore up a shrinking labour force and strained social security system. China's working age population peaked as far back as 2013, while the pension fund for urban employees could run out as soon as 2035.

Despite these dire projections, the reaction from the Chinese public appears to be less than sympathetic. Younger workers, already finding it difficult to compete in a tight job market, are worried that higher retirement ages will make things even more difficult. Middle-aged workers are concerned that they will end up paying higher insurance premiums for longer, while receiving lower total pension benefits. Those looking to start a family are not happy either. The cost of raising children means that many Chinese families rely on grandparents to help with childcare. This is clearly going to be problematic if retirement ages are to rise. Raising the retirement age only to put further downwards pressure on declining fertility rates would be particularly counterproductive. Whether or not paramount leader **Xi Jinping** can shepherd through these changes will have implications for the future health of the Chinese economy and China's global standing.

## **Gas deepens China-Russia ties**

*Whether Russia will be content to play the role as a junior partner and supplier of raw materials and energy to its larger neighbour is another matter*

In February, **Russia's** Novatek and **China's** Shenergy signed a deal for Novatek to ship around three million tonnes a year of LNG to Shenergy's Shanghai terminals over the next 15 years. The deal follows the delivery of first gas to China in 2019 from the almost 4000km "Power of Siberia" pipeline. The gas for the Novatek-Shenergy deal will be sourced from Novatek's LG-2 project on Siberia's Yamal Peninsula. Whilst Russia has been [careful](#) to avoid over-reliance on Chinese investment in the Arctic region, both China National Petroleum Corporation and China National Offshore Oil Corporation have a 10 percent stake in LNG-2.

For Russia, the deal is another important milestone in its own "pivot" to Asia and bid to offset the impact of Western sanctions. LG-2 also dovetails nicely with Russia's own Arctic development strategy and its somewhat [speculative](#) plans to establish the Northern Sea Route as an alternative to pre-existing arterial shipping routes. From China's perspective, the deal is an important part of an overall strategy to decarbonise the economy and increase energy security by sourcing from more "reliable" suppliers. For **Australian** LNG – already disadvantaged by high capital and labour costs – the implications are unlikely to be positive.

However, China becoming increasingly reliant on Russian energy is not without risk. Although careful to maintain public displays of unity, the traditional rivals continue to have numerous points of tension – from Central Asia to China’s persistent theft of Russian military IP. Whilst highly unlikely at present, it is not inconceivable that Russia might one day consider playing its gas card against Beijing. Sourcing gas from the Stans and **Iran** – as well as Russia – will likely be front of mind for Chinese policymakers.

### **The resurgence of South Korea’s conservatives**

*Shift in Korea’s political landscape could well have strategic implications*

**South Korea’s** conservative People Power Party (PPP) has recorded huge victories in mayoral elections in Seoul and Busan, winning 57.5 percent and 62.7 percent of the vote, respectively. The results mark a stark turnaround for a party that has struggled to shake off the legacy of the 2018 jailing of former President Park Geun-hye on corruption charges. Importantly, the mayoral elections – billed in South Korean media as a key popularity test for President **Moon Jae-in’s** Democratic Party – took place less than a year away from next March’s Presidential elections.

Just 12 months ago, the Liberal Democratic Party had been basking in the aftermath of a landslide win in the 2020 South Korea legislative election. The Democratic Party’s declining fortunes have been driven by high youth unemployment and an inability to address rising housing prices in major cities. Housing prices in Seoul have risen 50 percent since 2017 despite the institution [of 23 policies](#) designed to stabilise prices. The Moon government has also faced perceptions of corruption after ten government officials were accused of using insider information to try and cash-in on government housing development projects.

Despite ideological affinities, Liberal Democratic Party’s slide in popularity may be welcome news for President **Biden’s** Administration. Partly because of Beijing’s key role in securing peace with **North Korea**, Moon’s party has pursued a muted **China** policy that is clearly [out of step](#) with public opinion. Cashing in, individual PPP politicians have called on Seoul to join the Quad and cooperate more with **Japan**. Some have even promoted baseless [allegations](#) of Chinese electoral interference. Policymakers from Canberra to Beijing and beyond will be closely watching the lead up to March 2022.

### **Renewable energy drive in the Gulf will require significant allocation of resources and expertise**

*Questions remain about feasibility of ambitious targets set by Saudi Arabia*

There appears to be increasing momentum behind renewable energy in the Gulf. The **UAE** has commitment to generate 50 percent renewables by 2050 whilst **Saudi Arabia** has pledged to reach the same milestone by 2030. In the UAE, Abu Dhabi has set a target to install 5.6 gigawatts (GW) of solar capacity by 2026. Its current installed capacity is 1.3 GW. This week, state-owned [Abu Dhabi National Energy](#) (Taqa) – the Emirate’s main power supplier – pledged to increase renewable

energy's contribution to the electricity grid from 5 percent to approximately 30 percent. In **Saudi Arabia**, de facto leader Crown Prince **Mohammed bin Salman** (MbS) announced that power purchase agreements have been signed for seven new solar projects. The plants will reportedly have a combined capacity of 3 GW. This is consistent with Saudi's stated target to install 58.7 GW of renewable energy capacity by 2030.

However, there are questions about the feasibility of Saudi's targets, with a limited track record for delivery. 3.4 GW of capacity was developed between 2017 and 2020. Saudi did not commission any of the 1 GW renewable energy capacity planned in 2020 under the Renewable Energy Program. Most of MbS' broader Vision 2030 objectives are not being met and there remains a focus on investing in iconic projects over structural reform. In 2020, renewable energy constituted 7 percent of the UAE's energy production mix, compared to 0.08 percent of Saudi's energy mix. Saudi will require a significant allocation of resources and build-up of expertise to meet the stated targets.

### **Latin America heads to the polls amidst pandemic fallout**

*Ecuador and Peru's elections marked by apathy and fragmentation*

Latin America has been hit hard by the pandemic. In a study on 'Covid performance' the [Lowy Institute](#) ranked 102 countries on their handling of the pandemic. Latin American nations made up seven of the bottom ten. Amid the tumult, nine countries in the region will go to the ballot box this year.

**Ecuador** and **Peru** held presidential elections at the weekend – a second-round run-off in the former and a first-round vote in the latter. While the two elections yielded contrasting results, fractured polities and voter disaffection appear to be common threads. Right-wing candidate [Guillermo Lasso](#) was elected as President of Ecuador with roughly 52 percent of the run-off vote. In the campaign Lasso presented as a pro-business, religiously minded reformer who would be a steady hand at the wheel. He prevailed over populist nominee Andrés Arauz, a leftist candidate who promised a return to the "[era of growth](#)" of populist-authoritarian former President Rafael Correa. Lasso's slim margin is partly thanks to his ability to attract disaffected Indigenous voters who had supported Yaku Pérez in the first round.

In Peru, none of the [top four presidential candidates](#) has attained more than approximately 17 percent of the vote. In Peru, blank votes – a common act of protest – appear to account for approximately 15 percent of the [ballot](#). Ecuador also saw 15 percent of voters cast blank votes. The leading candidate in Peru is Pedro Castillo, a self-proclaimed Marxist.

A mishandled and protracted pandemic has set the scene for political instability in the coming years.