

# Dragoman Digest.

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## Testing the efficacy of US climate diplomacy

*John Kerry has been deployed to pressure countries to outline stronger climate ambitions*

The **US**’ pledge to integrate climate action and foreign policy has been put to the test in the leadup to President **Biden**’s Leaders’ Climate Summit on Earth Day. Biden’s “climate tsar” John Kerry has been deployed to spur countries to adopt more ambitious climate commitments at the Summit. So far, its use of climate diplomacy to display its re-embrace of international leadership – reversed under the Trump administration – has been moderately successful.

Kerry’s diplomatic efforts have had mixed success so far. In **India** they have not yet resulted in tangible success, although Prime Minister **Modi** is reportedly considering setting a net-zero target for 2050 – or potentially 2047 to coincide with the 100<sup>th</sup> anniversary of India’s independence. However, whilst Modi has outlined an impressive target of increasing renewables capacity to 450GW by 2030, he has not provided a clear strategy to transition away from coal which constitutes 55 percent of India’s generation capacity at 206GW. The outcome of recent discussions with **Brazil**’s **Bolsonaro** Government to curb illegal deforestation is not yet clear. Bolsonaro agreed to eliminate illegal deforestation by 2030, which increased 9.5 percent last year to 11,088 square kilometres. There is some scepticism that his pledge is genuine after Brazil requested US\$1 billion from Western nations in upfront cash on claims that it had already done enough on deforestation.

After the first day of the Biden’s climate summit, countries – including the **UK**, **Canada** and **Japan** – have set more ambitious interim targets. Prime Minister **Suga** outlined a new 46 percent emission reduction target by 2030 based on 2013 levels, up from the previous 26 percent target. The UK increased its target to reduce emissions from 68 percent to 78 percent by 2035. Prime Minister Justin **Trudeau** pledged to reduce emissions between 40 to 45 percent by 2030 based on 2005 levels, up from the previous pledge of 30 percent. President Moon **Jae-in** announced that **South Korea** will stop financing overseas coal power plants and will outline a bolder emissions reduction pledge. Those countries appear to be using climate action to strengthen relations with the US. **Australia** did not announce any increase to its commitment to a 26-28 percent reduction below 2005 levels by 2030, made at the Paris conference in 2015. Prime Minister **Scott Morrison** will likely come under increasing pressure to ‘ratchet up’ the country’s target. Other world leaders such as Saudi Arabia’s King **Salman bin Abdulaziz Al Saud** also refrained from making specific new commitment, instead choosing to highlight existing policy initiatives. The next step will be transforming deeper climate commitments into policy solutions and action.

## US-China co-operation has a ceiling despite climate pledge

*Relationship will remain defined by strategic competition*

Despite committing to “co-operating” on climate change last week, comments by paramount leader Xi **Jinping** and Secretary of State Antony Blinken suggest that climate is one of the few issues that the **US** and **China** will coordinate on. This week at China’s Boao Forum for Asia, Xi warned that the world “must not allow unilateralism pursued by certain countries to set the pace.” Xi also cautioned against “bossing others around or meddling in others” internal affairs. That likely refers to the recent consolidation of several loose groupings of countries into formal arrangements such as the US, **Japan**, **Australia** and **India** forming the Quadrilateral Security Dialogue (the Quad). The US has attempted to incorporate **South Korea** into the Quad, which is so far only willing to co-operating on an issue-by-issue basis.

Even when it comes to climate, there is still clearly an element of competition. Days after the historic meeting of climate envoy John Kerry and his Chinese counterpart Xie Zhenhua, Blinken directly linked domestic renewable energy investment with the US' "long-term strategic competition" with China. He noted that China is the largest exporter of solar panels, wind turbines, batteries and electric vehicles. Blinken also signalled that the US would "challenge the practices of countries" whose "inaction is setting the world back," suggesting the US would confront China on its continued reliance on coal. Whilst Vice Minister of Foreign Affairs Le Yucheng described the push for China to increase its target as "unrealistic," Xi announced at President **Biden's** Leaders' Climate Summit that China would "phase down" its coal consumption between 2026 and 2030. Climate action will be closely tied to soft power and global leadership in the coming decades. As a result, we can expect it to continue as an area of Sino-US competition as well as cooperation.

### **Italy takes tougher line on Chinese investment**

*Italy's moves are symptomatic of a Europe that is increasingly sceptical of China*

**Italian** Prime Minister **Mario Draghi** has invoked his country's "Golden Power" investment screening law three times in the space of a month to block **Chinese** tech transactions. On March 11 and March 25, Draghi's government blocked Italian telecommunications firms Fastweb and Linkem from purchasing 5G equipment from Chinese operators ZTE and Huawei. Then on March 31, Draghi vetoed a Shenzhen-based company's attempt to acquire a small semiconductor firm based near Milan.

Sometimes considered a "weak-link" in Europe, Italy appears to be opting for a more cautious approach on China. Just two years ago, Italy was the first G7 country to sign up to the Belt and Road Initiative. However, unlike more populist governments of recent years, Draghi is a firm proponent of Italy's traditional alliances. His recent decisions on 5G procurement are in keeping with his pledge that Italy's digital transformation will run on "European and Atlanticist tracks". As the blocked semiconductor transaction shows, Italy is also becoming warier of Chinese investment – and the associated pushback from allies. Draghi has backed calls for the Golden Power laws to be extended to the steel and automotive sectors. Though the motion seems unlikely to pass, some of Draghi's coalition partners are also pushing for Italy to emulate the **US** and just today the **UK**, in labelling the mass detention of Uyghurs as genocide. Whilst China will undoubtedly continue to be an important commercial partner for Italy in certain sectors, fears of a BRI "beachhead" in the heart of the EU now appear overstated.

### **What's in the detail of the Iran-China Strategic Cooperation Agreement?**

*Deal appears to be more about optics than substance*

The **Iran-China** Strategic Cooperation Agreement – signed on March 26 – has been described by some commentators as a "major geopolitical shift" with the potential to transform the region. Though the text of the deal has not officially been released, a leaked draft suggests a slightly more anodyne reality.

To start with, despite reports of Chinese pledges to invest anywhere between US\$400-800 billion in Iran, no dollar figure has ever been included in official statements or the leaked draft. Instead, there are general plans for infrastructure cooperation, while Chinese firms are "encouraged" to invest in Iran's economic free zones. This is likely for good reason. Despite some attempts to bypass **US** sanctions on Iranian oil, Chinese firms have generally been wary of doing business with Iran. Overall trade and investment volumes have plunged. Nor are there any signs – as was feared by some in Iran – that Tehran is about to sell islands or lease military bases to China. Instead, the cooperation agreement between China and Iran formalises what the two countries are already doing – military exercises, intelligence sharing and

cooperation on transnational crime. China's regional policy requires an element of balance. Beijing is fully aware that military bases in Iran would cause disquiet in **Israel** and the **Gulf** – where Beijing also has close partnerships.

Most telling is the fact that officials from both sides publicly emphasised that the deal is “non-binding” and contains no “quantitative, specific contracts”. The timing of the deal – coming after the formalisation of the Quad and as attempts to re-negotiate the JCPOA ramp up – is particularly illustrative. More than anything else, the cooperation agreement appears to be a flexible diplomatic card that both China and Iran can play in their respective disputes with the West.

### **Modi pushes ahead with ambitious structural reform drive**

*The end goal is for India to emulate China's development path*

Although it's hard to believe now, in 1990 India's GDP per capita was higher than **China's** at approx. US\$368 compared to Beijing's US\$348. Whilst China's economy has powered ahead, India's has remained hindered by inefficient state-owned enterprises (SOEs) and a dominant agricultural sector. Despite contributing not more than 20 percent of GDP, agriculture employs between 40 to 50 percent of Indian workers.

Whilst sometimes distracted by his majoritarian Hindu nationalist agenda, Indian Prime Minister **Narendra Modi** has recently doubled down on a structural reform program designed to address these inefficiencies. Modi's labour reforms – passed last September – will among other things, streamline 29 byzantine laws into four, legalise fixed term employment and liberalise dismissal laws. When it comes to SOEs, Modi is seeking to privatise and consolidate India's 367 sprawling and often loss-making public enterprises. Finding willing buyers may be a challenge though, especially for state-owned banks, as fears of an increase to already high rates of non-performing loans ripple through the market. Perhaps most controversial, has been Modi's proposal to liberalise the agricultural sector. The agricultural amendments – also passed in September but now suspended – would allow contract farming, abolish the state government's wholesale market monopolies and allow wholesale trading across state lines. Whilst the proposed changes have sparked mass protests, proponents argue that protestors – many of whom come from Punjab – represent only a small fraction of Indian farmers. However, it could also be that wealthier farmers from Punjab are simply more politically organised.

In an ideal world, the reforms will re-direct inefficient agricultural labour to industries like manufacturing – a focus of Modi's *Atmanirbhar Bharat* (self-reliance) agenda – and services. Clear obstacles remain however, including poor electricity access and infrastructure, skills shortages, and high tariffs. The ultimate success or failure of these reforms will have a vital bearing on the economic future of the world's soon to be most populous nation.