

# Dragoman Digest.

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## **Biden's plan to end the pandemic is hardly a watershed moment**

*The scale of commitment needed is significant*

**US** President **Biden** has pledged to take the lead on ending the global pandemic. On Monday, he announced that the **US** will export 20 million COVID-19 vaccine doses by the end of June through the World Health Organisation's COVAX facility – in addition to the 60 million already committed. Biden also pledged to drive a multilateral effort to combat the virus during June's G7 Summit. The 80 million doses to be sent will not be a game changer. An estimated 7-9 billion doses must be administered in 2021 and 2022 to reduce infection rates and slow mutations. 1.5 billion doses have been administered globally so far – less than 10 percent of the global population.

Only multilateral cooperation can address the lopsided vaccine rollout and supply bottlenecks. Developing countries like **India** and **Myanmar** have fully vaccinated less than 3 percent of their populations. **Egypt** and **Vietnam** have vaccinated less than 0.2 percent. On the other hand, **Israel** has fully vaccinated 56 percent of its population, the **US** 37 percent and the **UK** 30 percent. COVAX was designed to address this gap. However, its primary manufacturer – the Serum Institute of India – has halted all vaccine exports until the end of the year since the country's second wave. COVAX will likely miss its target to deliver 2 billion vaccines to 140 developing countries in 2021, having only delivered 65 million doses so far. Vaccine scarcity is partly driven by shortages of raw materials and export controls. The **US** and the **UK** control 35 percent of key COVID vaccine ingredients. Both have export controls in place.

Whilst Biden's pledge to export 80 million vaccine doses is a good start, much will hinge on a commitment from global leaders in developed countries to distribute raw materials, build manufacturing capacity and share manufactured doses. Anything less will prolong the pandemic.

## **Teflon Modi faces a COVID-reckoning**

*Poor results in Hindu heartland are particularly worrying for Modi*

Throughout much of his time in office, **Indian** Prime Minister **Narendra Modi** has had an aura of political invincibility. Before the 2019 election, there had been concerns that slower than promised economic growth, exacerbated by some of government's own policies, would see Modi's **BJP** fail to win a majority. Instead, the **BJP** substantially increased its majority whilst the hapless **Congress Party** failed to win enough seats to pass the official opposition party threshold.

However, Modi has come under increasing pressure as India's COVID-19 catastrophe has worsened. After relative success in managing the virus in 2020, India is now the crisis centre of the pandemic with caseloads and deaths far beyond figures seen anywhere else in the world. Actual case numbers are likely much higher than is being reported – a problem which is being amplified by the Modi's government's ensorship of critical media. Critics accuse Modi of actively encouraging mass religious gatherings and political rallies, even as the caseload began to spiral out of control. From February to May, Modi himself made 14 trips to rally supporters in the state of West Bengal in advance of local elections. Modi's right-hand man, Minister of Home Affairs Amit Shah, made up to 50 trips. New Delhi's 'go it alone' approach has mostly left vaccine procurement to individual states.

Perceptions of complacency and incompetence have led to fierce public criticism of Modi, even in BJP social media forums – a decidedly rare occurrence. Recent local elections have not gone Modi's way. The BJP fell well short in West Bengal, losing to a regionally-based party. More worrying for Modi though, was the poor showing that the BJP reported in village elections held in the Hindu strongholds of Varanasi, Ayodhya, Gorakhpur and Lucknow. In Varanasi, Modi's own constituency, his party won just eight out of 40 district council seats. National elections are not scheduled until 2024 and local elections aren't always accurate weathervanes when it comes to national sentiment. Though clearly rattled, it would be foolish to write Modi off just yet.

### **China's secret occupation of northern Bhutan**

*Approximately one percent of Bhutan's entire territory is occupied by China*

**China's** territorial expansion impulses – historically relatively modest though they are for a rising power – have typically focused on East Asia and the South China Sea. In South Asia, China's long and disputed mountainous border with **India** has typically captured the lion's share of international attention. China's occupation of parts of northern **Bhutan** has gone under the radar. Research recently released by Foreign Policy documents China's construction, starting in a 2015, of series of villages, administrative and security posts in the mostly uninhabited Beyul Khenpajong and Menchuma Valley regions.

China's motivations for occupying these regions are manifold. Beyul Khenpajong is a sacred location in Tibetan Buddhism. China has sought to co-opt as much of Tibetan Buddhism as possible, owing to Beijing's sensitivities about the religion's association with the Tibetan independence movement. Most of the residents of these mountainous outposts are ethnically Tibetan. Portrayals in local media suggest China is trying to turn these villagers into patriotic exemplars to be emulated by their fellow ethnic Tibetans.

China's overarching motivation is to pressure Bhutan to accept a proposed "border swap" that Beijing has been pushing since 1990. The terms of the deal would see China renounce its claims over Beyul in exchange for Bhutan ceding 269 square kilometres in western Bhutan. Control of these strategic parts of western Bhutan would put Beijing in striking distance of India's "chicken's neck" – the narrow Siliguri Corridor connecting the rest of India to its north-eastern territories. Last year amidst the Sino-Indian Himalayan standoff, Beijing ramped up the pressure on Bhutan by making additional and imaginary claims over parts of Bhutan's east. Prima facie, China's recent activities directly violate a 1998 agreement with Bhutan to maintain the border status quo and refrain from unilateral actions. Indian media reports suggest similar Chinese activities are taking place in Nepal and the Indian state of Arunachal Pradesh. Whilst there are local issues at play, China's actions set a highly worrying trend for regional security.

### **Chinese renewable energy players feeling the squeeze**

*Beijing wants renewable companies to stand on their own two feet*

A series of recent policy directives are putting the squeeze on **Chinese** renewable energy companies. Draft policy documents released by the National Development and Reform Commission (NDRC) in February and April proposed ending subsidies for wind and solar this year. Then in mid-May, the NDRC and the affiliated National Energy Agency (NEA) issued a policy encouraging solar and wind projects to sign long-term contracts with grid companies, end-users and retailers. In a market where prices are largely set rather than determined by market forces, the policy also intends to cap renewable energy prices despite the high cost of grid connection and dispatchment. The NDRC and NEA's recent policy suggest that

renewable developers should effectively bear most of these costs, which will devalue the assets.

Outstanding subsidies payments also remain a problem. The government fund set up to subsidise renewable energy providers had a cumulative deficit of US\$50 billion at the end of 2020. A large portion of subsidies are yet to be paid out. On March 2, the NEA flagged it would allow energy firms to bid on projects based on the amount of subsidy debt that they are willing to forgo. The NEA's March draft regulations prompted a sell-off in renewable energy companies, including in the shares of China Longyuan, China's biggest wind-power producer.

The central government is clearly calculating that the rapidly decreasing investment costs of renewable energy means that the industry will be able to take the hit. To soften the blow, the NDRC is trying to beef up renewable energy consumption obligations for local governments. Whether Beijing's policy assumptions are in fact correct will have important consequences for China's energy transition objectives and the success of its renewable component manufacturing.

### **Shifting political forces in Latin America**

*Persistent inequality and a mishandled pandemic pave the way for the declining fortune of mainstream parties*

Citizens in **Chile** and **Peru** are fed up with the political establishment. In Chile, voters elected last week to rewrite the country's constitution. President **Sebastián Piñera**'s ruling Chile Vamos coalition won just 37 out of 155 seats in the constitutional assembly. The traditional left and right blocs have 62 seats between them. Instead, voters backed far-left and independent candidates, who secured 52 seats. Housing, education, health and a public pension system – their key campaign platforms – are likely to be included in the new constitution as a result.

In Peru's first round of presidential voting, no candidate attained more than 17 percent of the vote. Now in presidential runoffs scheduled for 6 June, the leading candidate is self-proclaimed Marxist Pedro Castillo. He has pledged to rewrite the constitution to replace the elected congress with union representatives and interest groups that represent Indigenous and rural voters. The alternative is Keiko Fujimori – the daughter of former dictator Alberto Fujimori. The two candidates are virtually tied, with 51.5 percent of participants favouring Castillo against Fujimori's 48.9 percent in a poll by Ipsos.

Persistent ingrained inequality and extreme poverty might be one driver of voter frustration. The Gini coefficient – used to express the extent of inequality – is 0.79 in Chile and 0.78 in Peru. A coefficient of 0 is complete equality. Chile's mass civil unrest in October 2019 was sparked by the increasing cost of living, inequality and low wages. A mishandled pandemic has only sharpened grievances. As we have previously noted, the Lowy Institute ranked Peru 102<sup>nd</sup> and Chile 92<sup>nd</sup> out of 102 countries on their handling of the pandemic. The foundation has been laid for the emergence of new political forces.