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Washington doubles down on Southeast Asia

Blinken's first visit to Southeast Asia comes as Washington aims to counter China's growing regional clout

US Secretary of State Antony Blinken is set to visit **Indonesia**, **Malaysia** and **Thailand** next week as Washington doubles down on its engagement with Southeast Asia.

Blinken's visit comes after President Joe **Biden** spoke to Southeast Asian leaders for the first time during his presidential term at October's ASEAN summit. Biden announced plans to spend US$102 million to expand the US-ASEAN strategic partnership, aiming to build up security relations and deter an increasingly aggressive **China**.

During his visit to Jakarta, Blinken will give a lecture on the broad contours of Washington's new Indo-Pacific strategy, including its proposed (yet still vague) Indo-Pacific Economic Framework. To date, the Biden administration has not put much effort into diplomatically engaging Indonesia. Indonesian ministers have had to travel to the US to get a hearing with top-ranking Biden officials. The decision to unveil the strategy in Jakarta suggests that Biden is eager to rectify this perceived disinterest. China's increasingly aggressive behaviour, particularly in the South China Sea, provides an opening for the US to assuage Indonesia's growing unease.

Last week, China told Indonesia in a formal letter to stop drilling oil and gas in the Natuna Besar – an area where Indonesia has held drilling rights for decades. Chinese vessels have been harassing drilling activities in this area for some time. China has in effect, publicly highlighted activities that Jakarta – cognisant of its trade ties with China – was very wary of drawing attention to. All of this is propitious for Blinken's visit. However, without firm economic incentives, there will be a clear ceiling (even more so than already exists given Indonesia's firm neutrality) on prospects for a deeper US-Indonesia partnership.

Outlook for Chinese growth remains uncertain

Beijing appears to be increasingly comfortable with – or at least resigned to – a new normal of lower growth

The **Chinese** economy faces increasing headwinds. China's strict "COVID-zero" policy, necessitated in large part by the inefficacy of China's vaccines and its relatively undeveloped medical infrastructure, continues to dampen consumption.

Surging Chinese goods exports had accounted for 40 percent of China's overall GDP growth in the first three quarters of the year. But comments by Vice Commerce Minister Ren Hongbin indicate an expectation that exports will decelerate from this high-water mark. Ren pointed to challenges including rising protectionism, accelerating inflation, a restructuring of global supply chains and a variety of "micro-level problems" affecting Chinese exports.

The property sector faces the most acute challenges of all. Property and related industries have typically accounted for up to 30 percent of China's GDP – significantly higher than pre-GFC **US** or early 1990s **Japan**. Last month, sales by the top 100 property developers contracted 38 percent year-on-year and 3.4 percent on October levels, marking the fifth successive month of decline. With sales falling and access to credit scarce because of Beijing's "three-red lines" policy, many developers – not least Evergrande – are experiencing dire liquidity issues. Beijing is seeking to balance a deleveraging campaign with efforts to promote alternatives forms of growth. The result is a somewhat contradictory policy prescription – whilst the three red lines policy has been maintained, the People's Bank of China (PBoC) and a slew of provincial governments are "urging" banks to maintain funding to the property sector.

On a broader macro level, the PBoC's announcement on Monday of a 50-basis point cut to reserve requirement ratios (RRR) – instead of a cut to interest rates – is in keeping with need to support growth whilst also deleveraging the economy. Forecasts from Macquarie indicate that Beijing will need to enact "a significant step-up" in monetary easing to ensure growth of at least 5 percent. Beijing's exact balance of priorities between growth and other policy objectives will become clearer over the next twelve months.

Major economies announce massive investment in semiconductor capability
Interest growing in onshoring of semiconductor manufacturing despite inefficiencies
Amid global supply chain shortages, major economies – including **China**, the **US**, the **EU**, **South Korea** and **Japan** – are considering, or mobilising, substantial investment to support or enhance their semiconductor manufacturing capability.

After years of decline, Japan has looked to foreign companies to rebuild its semiconductor industry, offering generous subsidies in return for private sector investment. In October, Taiwan Semiconductor Manufacturing Company announced plans to build its first ever chip plant in Japan. The Japanese government is subsidising up to half of the estimated US$8 billion cost. South Korea is investing in research and development projects for self-sufficiency in automotive semiconductors. The government announced it would invest around US$450 billion by 2030 to build the world's largest chipmaking base. Over 150 companies are involved – including Samsung Electronics.

Though onshoring might lead to more resilient supply chains, there are trade-offs. The build-out of chip capacity may see duplication and the proliferation of less-efficient operators. Expansive government intervention could see loss-making companies propped up unnecessarily. China's semiconductor self-sufficiency goals are a cautionary tale. Well over US$100 billion in subsidies provided to the domestic semiconductor manufacturing industry has yielded relatively modest dividends in terms of achieving self-sufficiency.

Myanmar sentences deposed leader Suu Kyi
Myanmar's military regime sets its sight on winning possible 2023 elections short of enacting an outright ban on the NLD

Myanmar's ousted leader Aung Sang Suu Kyi's sentence has been reduced from four years to two. Suu Kyi was detained by the junta in February when it took control of the country. At the start of the week, the court had initially sentenced the previous figurehead of the National League for Democracy (NLD) party to four years imprisonment for incitement against the military and violating COVID19 restrictions. These charges are widely considered to be spurious. Military leader Min Aung Hlaing later halved the prison sentence in an apparent display of unity. Suu Kyi is still fighting 11 criminal charges – with maximum sentences totalling more than 100 years – and more charges are yet to be filed.

The junta reportedly initially sought to disband the NLD. However, this proposal was met with subtle but firm pushback from **China**. In a message to junta leaders in August, Chinese officials said they wanted to see the NLD continue to exist as a political party. Despite its official policy of strict non-interference in the affairs of other countries, the CCP also invited the NLD to a regional summit on economic development. China has traditionally had a closer relationship with the NLD than the military, which is suspicious of Beijing's support for a series of ethnic insurgencies in Myanmar. Beijing likely realises that banning a wildly popular political party may undermine stability on its southern borders.

By precluding Suu Kyi from participating in promised (though delayed) elections, likely to take place in 2023, the military is counting on the NLD being a significantly reduced force – if indeed it is allowed to run. China's interference may complicate the junta's strategy.

China projected to incur substantial economic losses from extreme climate events
Coastal mega-cities and inland agricultural regions are particularly vulnerable

China faces potentially substantial economic losses from extreme climate-related events, according to Tsinghua University's Institute of Energy, Environment and Economy. Between 2020 and 2050, under a baseline or business as usual scenario, China may face cumulative losses of nearly US$18.5 trillion. Achieving carbon neutrality by 2060 would reduce this figure to a projected $8.5 trillion. A delayed decarbonisation pathway would worsen projected losses. Under a baseline scenario, by 2100, China may face US$289 trillion in losses.

The costs of global warming-induced weather events are already materialising. Tsinghua's study points out that over the last decade, China has incurred annual economic losses of more than US$50 billion, around 0.4 percent of its GDP. The intensity and frequency of climate events is set to grow. Major and densely populated coastal cities, like Shanghai, Hong Kong and Tianjin are particularly vulnerable to sea levels rises. China's central agricultural provinces are at risk of increasingly heavy rainfall and floods. Widespread flooding in Henan province in Central China in June foreshadows the potential impact of flooding on crops – with implications for food security. The flooding resulted in direct losses to China's poultry and livestock industries of US$348 million, affected 712,000 hectares of crops and contributed to coal shortages that saw widespread blackouts. China's adaptation strategy – released in 2013 – has had limited effect. Climate adaptation principles are yet to be mainstreamed into planning and construction standards.

According to the International Energy Agency, the deepening of power market reforms and a scaling up of China's nascent emissions trading scheme, resulting in reduced coal demand, could place China on a sharper decarbonisation pathway. However, with extreme and costly weather events already occurring, measures to bolster resilience will be critical to reduce vulnerability.