Dragoman Digest

Conflicting strands in Australia's China policy

Deepening of Australia's quasi-alliance with Japan comes amidst signs of economic pragmatism

In a virtual ceremony on Thursday, Australia and Japan signed the long-awaited, symbolically and practically important, Reciprocal Access Agreement (RAA). The RAA will remove legal and bureaucratic obstacles, streamlining the access of the Australian and Japanese defence forces to each other's countries. This will pave the way for more joint exercises and secure a more sophisticated defence relationship. The Japan-Australia RAA will be Japan's second such agreement after its foundational accord with the US. A converging outlook on the threat posed by China's military build-up is the primary factor behind recent efforts to expedite the RAA – with negotiations having first commenced in 2014.

Whilst Australia is clearly deepening its contribution to efforts to constrain China, a more pragmatic posture seems to be emerging on economic matters. A Department of Defence review recently found that there are "no security grounds" to overturn the 99-year lease of the Port of Darwin to Chinese company Landbridge. Whilst it is still possible that the lease will be revoked, this now appears to be increasingly unlikely. Additionally, Dragoman understands that at least one Chinese investment in AI has recently been cleared by the Foreign Investment Review Board. This may be part of an incipient effort by Canberra to "compartmentalise" its relationship with Beijing, as opposed to the almost blanket restrictions on Chinese investments over the past 18 months.

Indonesia bans coal exports for the month of January

Jakarta's move has caused jitters in regional capitals – especially in Beijing

On New Year's Day, Indonesia's Ministry of Energy and Mineral Resources took the highly unusual step of banning coal exports for a month. Despite industry consternation, the directive won the direct backing of President Jokowi. The export ban has been justified on the grounds that less than one percent of the 5.1 million tonnes that were expected to be delivered to local (Indonesian) plants in December actually arrived. Under Indonesian law, coal miners are required to deliver at least 25 percent of their output to state-owned electricity company PLN at a mandated price of US$70 per tonne – less than half of the current market price.

With a variety of domestic factors contributing to lower than necessary domestic coal output in China, Indonesian miners have enjoyed an export boom. China's decision to unofficially ban Australian coal exports provided an extra fillip to Indonesian miners, which now supply more than 60 percent of China's coal imports. Indonesia's has induced further dislocation into Asian markets – particularly Japan (which has officially asked for the ban to be revoked), South Korea and China – that are already roiling from the northern hemisphere energy crisis. Since the ban was announced, coal futures in China have risen by more than 6 percent to 714 yuan (US$112) per tonne – the sharpest increase since rolling blackouts swept throughout China in October. A further extension of Indonesia's export ban could even prompt China to reconsider its import ban on Australian coal.

Amid pressure from the coal industry and trade partners, Jakarta is now reported to be reconsidering the ban – with PLN having also secured an extra 7.5 million tonnes of coal. Even if the Indonesian export ban is rescinded, the haphazard application of policy risks undermining the reliability of Indonesian exporters. Australian miners are the obvious beneficiaries.

Erdogan's high-stakes lira gambit

Turkish president shows no sign of shying away from his controversial and heterodox monetary policy theory

Turkish President Recep Erdogan's government is quickly moving to introduce a series of measures to tame inflation without raising interest rates. In keeping with Erdogan's highly unusual conviction that high interest rates help cause, rather than tame inflation, the Turkish central bank has cut interest rates by an accumulated 500 basis points since September. Just before Christmas, US$1 was purchasing 18.4 lira, up from 8.28 at the start of September.

Erdogan's measures revolve around incentivising Turks to ditch foreign currency holdings in favour of lira deposits. Announced on 20 December, Ankara will underwrite any losses incurred by individuals exchanging existing dollar deposits (worth some US$142 billion) into lira. Other proposed measures in the pipeline include lira and gold-based financial products that will also be guaranteed against inflation. Turkey is also engaged in currency swap negotiations with at least three countries, one being Azerbaijan.

The suite of measures prompted a short-term rally in the value of the lira to US1: L10.2 – though in recent days the rate has stabilised at around US1:L13.4. The unsustainable cost of these measures over the longer term and other electoral blandishments such as December's 50 percent minimum wage hike, has prompted speculation that an early election (originally scheduled for June 2023) is on the cards. Facing a six-year low in approval ratings (38.6 percent) and increasingly fearful of the prospect of the sweeping powers of his own executive presidency residing in opposition hands, Erdogan has his back against the wall.

Elections that we are tracking in 2022

- Portugal – January 30
- Costa Rica – February 06
- Mali – Feb 27
- South Korea – March 09
- South Australian state election – March 19
- France – April 10
- Hungary – date TBC
- Australian federal election – by May 21
- Philippines – May 09
- Colombia – May 29
- Kenya – August 09
- Sweden – September 11
- Brazil – October 02
- Bosnia – October 02
- US mid-term elections – November 08
- Victorian state election – November 26
- Tunisia – December 17