Dragoman Digest

EU splits over proposed 'green investment taxonomy'

Whatever the EU decides will have important implications for global standards

The **EU** has been divided over the inclusion of natural gas and nuclear energy in its 'green finance' taxonomy. Some member states – including **Austria** and **Luxemburg** – are threatening lawsuits, whilst other states may pursue a separate taxonomy altogether.

As it currently stands, the draft taxonomy proposes that select gas-fired power projects should qualify as 'green' if they produce less than 270 grams of carbon dioxide per kilowatt-hour, well above the 100-gram threshold preferred by scientists. The taxonomy has also caused controversy by classifying nuclear power as 'green'.

In response, firmly anti-nuclear governments in **Austria** and **Luxemburg** have started legal preparations for a lawsuit against the Commission. However, the draft can only be overruled if it is rejected by a supermajority of both members of the European Parliament and member states, which is unlikely. Pro-nuclear states **France**, **Finland**, **Poland** and **Hungary** argue that it is "absolutely necessary" for nuclear power to be included in order to guarantee domestic energy security. For its part, France currently derives 70 percent of its energy mix from nuclear. Poland is set to rely on nuclear for 16 percent of its energy mix by 2040 as it phases out coal.

Spain's Deputy Minister For Environment, Teresa Ribera, suggested that two taxonomies might emerge – a 'gold standard' taxonomy that excludes gas and nuclear, and a 'silver standard'. She warned that Spain subsequently may elect to formulate its own standard. The taxonomy or taxonomies that eventually emerge will influence enormous amounts of public and private investment – estimated to be around €1 trillion by 2030 – as well as the cost of capital for different technologies. The taxonomy will also be applied to government investment programmes across the EU including the €750 billion (US$825 billion) pandemic recovery reconstruction fund. Division between member states culminating in separate taxonomies will make it harder for EU investment programmes to be deployed at scale.

Indonesia targets food and tourism in latest SOE restructuring

Latest regulatory salvo seeks to consolidate tourism and food industries

Indonesia earlier this month established two new holding companies, InJourney and ID food to consolidate a myriad of state-owned enterprises (SOEs) in the food and tourism sector. InJourney will oversee a network of airports and over 120 hotels, whilst ID food includes several food companies operating across the agricultural supply chain. Both sectors have been particularly hard hit by the pandemic and various associated issues including supply chain disruption. Ministry officials have also revealed plans to form two further holding companies across the defence and geothermal energy sectors.

The stated purpose of the SOE consolidation is to facilitate cross-industry coordination and create bigger, more agile, efficient and professionally-managed companies. Since taking office in 2019, SOE Minister Erik Thohir has prioritised the trimming and consolidation of the previously bloated SOE sector. According to Thohir, there are now 41 – down from 111 SOEs. The ability of SOEs to form subsidiaries has also been significantly constrained. As well as driving efficiencies, the consolidation of SOEs is in keeping with Thohir's plans for at least 14 SOEs to conduct IPOs by 2023. Thus far, both Dayamitra Telekomunikasi and e-commerce unicorn Bukalapak have conducted relatively successful IPOs. As well as providing financing avenues other than debt (an ongoing issue for SOEs) the hope is that public listing will improve the quality of corporate governance.

Though there are sincere liberalising and reformist forces at play, SOE reforms have not been without scandal. Minister Thohir was criticised heavily in 2019 for his involvement in appointing Said Aqil Siradj as President Commissioner of the state railway operator Kereta Api Indonesia. Siradi previously served as Chairman of Nahdlatul Ulama (NU), Indonesia's largest Muslim organisation. NU played a central role in mobilising support for President **Widodo** amongst Muslim voters at the 2019 election. With SOEs continuing to be vital to Indonesia's economy – with their assets comprising well over 54 percent of GDP – the success or otherwise of Thohir's reforms will have an important bearing on the country's future economic health.

Developing countries' investment in crypto continues to grow despite warnings

Southeast Asian and Sub-Saharan African countries rank first for crypto adoption worldwide

Despite warnings from the International Monetary Fund (IMF), the World Bank and a broader public outcry, **El Salvador**'s President **Nayib Bukele** this week bought US$15 million worth of bitcoin as the cryptocurrency hit a yearly low. This brings the country's stake in bitcoin to over US$85 million. Bitcoin has become increasingly volatile in the past month, reaching a low of US$35,442, well beneath its November high of US$68,798. In September, **El Salvador** became the first country to accept bitcoin as legal tender, requiring businesses to accept the cryptocurrency.

President **Bukele**'s most recent move comes amid growing concerns from financial regulators regarding the risks of cryptocurrency investment in emerging markets. Out of the top 20 crypto adopters in Chainalysis' global index (which is weighted against income and wealth), only one – the **US** (ranked 8th) – is a developed economy. **Vietnam** is ranked first, followed by **India** and **Pakistan**. Six sub-Saharan countries – **Kenya**, **Nigeria**, **Togo**, **Tanzania**, **Ghana** and **South Africa** – are ranked in the top 20. Weak banking systems and volatile currencies make emerging markets fertile grounds for the adoption of cryptocurrencies. Crypto also has benefits for users in countries that suffer from physical currency shortages and the high cost of traditional remittances.

Economists have warned that crypto adoption in emerging markets poses risks for those who are least able to afford them. The IMF has identified an increasing correlation between crypto and traditional asset classes, meaning that episodes of crypto volatility could be transmitted to financial markets. The use of crypto can also have adverse effects on the broader international economy. The IMF warned last year in July that the volatility of the crypto market could undermine "macroeconomic stability" and potentially expose financial institutions to widespread illicit activity. They further cautioned that the use of cryptocurrency without adequate regulation could have adverse effects on the implementation of monetary policy and fiscal policy. Particularly in developing countries, regulation appears to be lagging far behind the pace of uptake.

China prioritises COVID-zero credentials in key year for the Party

Beijing has tightened testing requirements and public spectator caps for the upcoming Winter Olympics to prevent a major outbreak

This week, **China** announced that tickets for the Beijing 2022 Winter Olympics will not be sold to the general public. This came after at least 43 cases were detected in the past week. With 20 million citizens currently under lockdown, officials continue to assure the public that the intake of athletes will not pose a health risk to the country. China's current zero-Covid and its stringent testing and quarantine requirements have rankled athletes. The **US** national ice hockey league announced in December that its team would not be participating in the Winter Olympics due to scheduling issues resulting from these requirements.

Demonstrating success in the fight against COVID-19 is key to President **Xi Jinping**'s credibility. Beijing and Xi personally have staked much on its China's unparalleled ability to contain the virus, especially compared to Western countries. However, this triumphalist posture belies considerable anxiety over the state of China's hospital system, the efficacy of Chinese-made vaccines and lingering questions about the origins of COVID19 and Beijing's initial handling of the virus.

Beijing's COVID-zero policy is of course, not without limitations. Beijing will have to live with the fact that unlike the 2021 Tokyo Summer Olympics where tickets were readily available to the public, only a select few guests will be able to attend. This will inevitably cast further clouds over an Olympics which is dealing with a diplomatic boycott, albeit a limited one. Nevertheless, with the 20th Party Congress due later this year – where it is predicted that Xi will at least be granted another term – the top leadership is content to prioritise stability above all else.