Dragoman Digest

Indonesia announces US$22 billion investment in military capabilities

The two new contracts with Western powers undercut a previous deal with Russia

Indonesia announced two major defence acquisitions this month which will materially upgrade its air combat capabilities. Jakarta will order 42 Rafale twin engine lightweight fighter jets from **France**, whilst the **US** approved the sale to Indonesia of up to 36 F-15 fighter jets. The deals – if executed in full – represent a US$22 billion investment.

The purchase is a minor success of the US' threat of sanctions. In 2018, Indonesia announced a US$1 billion contract for the acquisition of 11 **Russian** Su-35 heavyweight fighters. Russia even agreed to accept partial payment in commodities including rubber and palm oil to incentivise the deal. However, Washington applied pressure using its Countering America's Adversaries Through Sanctions Act (CAATSA) – which resulted in the cancellation of the deal last year. Senior members of President **Widodo**'s administration expressed concern that the US would take punitive action on trade deals if it proceeded with the Russian deal. CAATSA threatens to impose sanctions on countries considering major weapons packages with the US' strategic adversaries – aiming to drive countries including Vietnam, **India**, and **Algeria** to shift towards engaging with the West.

For France, the deal is paramount as the country seeks to increase its clout in the Pacific. Prior to this deal – India was the only country in the Indo-pacific party to similar contracts with France. The deal with Paris will also benefit the US by undermining Russia.

Indonesia's decision to upgrade its defence capability comes with a structural change in its military operations, highlighting its exposure to tensions of the South China Sea. The new purchases follow the country's deployment of more vessels to the Natuna islands last year to counter incursions by China in the region. President Joko Widodo has been noticeably more active in international affairs and is evidently set on avoiding the "lame duck" status of Indonesia's late-term Presidency.

EU parliament adopts "polluter pays" principle in trucking rules

The contested 'Eurovignette' laws aims to incentivise low-emission mobility

After five years of negotiations, the **EU** has adopted a new set of road toll regulations that will incentivise the use of commercial electric and fuel cell electric vehicles. vehicles. The new 'Eurovignette' directive will cover all toll networks that use Trans-European Transport Network (TEN-T) roads. Charges will be differentiated based on carbon emissions. Hauliers operating zero-emission trucks will be awarded discounts of at least 50 percent on toll roads. The cost of tolls for vehicles powered by fossil fuels is currently around €25,000 (US$28,400) annually per truck. From 2026, the legislation will cover vans and minibuses. The provisions must be implemented by member states by May 2023. Currently, only four member states have penalties in place for air pollutants.

Potential loopholes may undermine the impact of the legislation. Member states can continue using the old time-based system of tolling for some sections of their roads, if it can be proved that removing it would lead to a major fall in government revenue. States can also petition the EU if it leads to a "substantial diversion of traffic with negative consequences."

Despite this, economists expect the new laws will reduce overall emissions – particularly in traffic-choked cities. EV trucks can reduce greenhouse gas emissions by 11 tonnes per vehicle per year. Trucks currently produce around 23 percent of the EU's emissions. Coordinated uptake by member states will be crucial to maximise the ultimate impact on emissions.

Japanese companies struggle to procure renewable energy at scale in Southeast Asia

ESG pressure from investors when tendering contracts proves to be an issue for countries in the region

Some major **Japanese** companies are struggling to obtain renewable energy at scale across their supply chains. The issue is particularly acute in manufacturing hubs in Southeast Asia. Southeast Asia's reliance on heavy emissions manufacturing follows decades of heavy fossil fuel investment into the region from **China**, **South Korea**, and **Japan**.

Major Japanese companies including Asics and Ricoh have made progress in addressing their Scope 1 and 2 emissions targets. Ricoh is on track to reduce its Scope 1 and 2 emissions by 63 percent by 2030. Scope 3 emissions – in these cases largely generated upstream in the company's value chain – account for over 84 percent of the firm's overall emissions. Suppliers are under increasing pressure to decarbonise. Asics has set an 85 percent renewable energy generation target for its suppliers in Indonesia and Vietnam.

Of Japan's leading tech companies, only Hitachi, Sony, and Toshiba have so far included Scope 3 emissions from supply chains in their reduction targets. Mitsubishi's 2021 carbon-neutral roadmap stated that Scope 3 emissions will be "considered in tandem" with future frameworks. Nonetheless, attention on Scope 3 emissions is growing.

After decades of fossil fuel investment in the region, Japan has been influential – Mitsubishi's decision to withdraw from the Vinh Tan 3 coal-fired powerplant project in Vietnam last year marked a pivotal stage in the country's policy switch. Japan's Bank for International Cooperation has also signed a Memorandum of Understanding with Vietnam to collaborate on green energy projects that underpin its latest Draft PDP8 national power plan. Greater investment and domestic support in the region is required to aid the push in emissions reduction for Japan Inc.

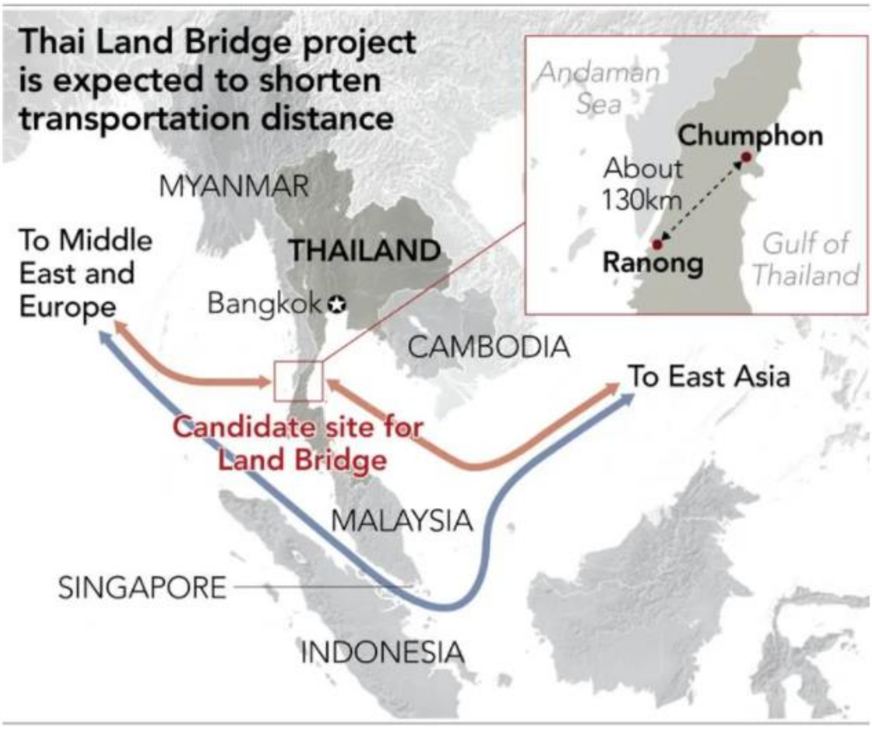
Thai 'land bridge' another theatre for China-US rivalry

It remains unclear whether the US will seek to head off Chinese participation with a firm proposal

The Ao Ang district in **Thailand**'s southern Ranong Province has been picked as the preferred site for its much-vaunted 'land bridge.' Thailand proposes to build two ports for large cargo ships on either side of the isthmus, linking them with highways, railways and oil pipelines. If constructed, it would shorten the distance that cargo ships must travel between the Indian and Pacific Ocean by approximately two days and enable ships to bypass the Strait of Malacca.

Thailand intends to collaborate with foreign partners to construct the land bridge. Last year, China visited the province and exhibited "strong interest" but is yet to make any firm commitments. Beijing plans to construct a pan-Asian railway network running through the Indochina Peninsula to bypass the South China Sea and the Malacca Strait, through which over 80 percent of China's energy imports pass. The land bridge could form an important piece of this network. Washington has already warned Thailand that Beijing's involvement would not "bring economic benefits" to the region. It is concerned that the ports may come under Chinese influence and could be used for military purposes.

Despite the **US**' concern over China's expansion in the region, it has not offered any alternative investment. With the feasibility study set to be completed in 2023, interested players will need to act quickly.



Source: NikkeiAsia

Two of Kuwait's senior cabinet ministers resign

The resignations have sparked concerns that instability may spread to other regions

Kuwait's Defense Minister Sheikh Hamad Jaber Al-Ali Al-Sabah, and Interior Minister Sheikh Ahmed Mansour Al-Ahmed Al-Sabah submitted their resignation to Prime Minister **Sabah Al-Khalid Al-Sabah** earlier this week. The ministers cited the impossibility of reform in Kuwait's "troubled" political environment as the reason for their resignation.

Their departure comes amid broader disruption within the Kuwaiti Government. Key economic and social reforms have been sidelined in recent months. For example, Kuwait's energy conservation code has not been revised for 27 years, with any changes to the inefficient building sector watered down or blocked by the cabinet. In recent weeks policy progress has been halted while the government conducts numerous no confidence votes on its sitting National Assembly members.

There is some concern that the resignation of the two leaders will dissolve the National Assembly – the legislature branch of the Kuwaiti Government. With Emir **Nawaf Al-Ahmad Al-Jaber Al-Sabah** currently unable to make decisions stick – any policy progress within the assembly has been limited. Observers are concerned that domestic instability within Kuwait may spread to other members of the Gulf Cooperation Council (GCC).

Whether the prime minister will accept the resignation from the leaders remains to be seen. The two leaders are also members of Kuwait's royal family indicating that those closest to power are losing faith in the current political system.