Dragoman Digest

Indonesia seizes its moment with downstream value add requirement for 'key' minerals
Minerals are critical to semiconductors and electric vehicle batteries

Indonesia is accelerating its plans to ban the export of several unprocessed minerals including coal, tin, bauxite, gold and copper by mid-2023. President **Widodo** (Jokowi) warned that the ban on some unprocessed exports could be brought forward to the end of 2022 to incentivise domestic value-added processing.

Widodo has been emboldened in his resource nationalism agenda after some early success. A ban on metal ore exports in 2014 played a part in inducing Freeport-McMoran to cede its majority stake in its Grasberg copper-gold mine and build a US$3 billion copper smelter – one of the largest in the world. Jokowi is now looking to expand the beneficiation program to stimulate investment in downstream processing for minerals that are important to the global energy transition. Indonesia has a clear domestic industrialisation imperative and its success with minerals is measured in the number of new smelters initiated and planned – seven are due to come online in 2022.

However, economists have warned of some potential adverse effects of the ban. Indonesia's ban on nickel exports in January 2020 resulted in a temporary surge in global prices. The move strained the country's relations with the **EU**, which last year requested that a panel be set up to mitigate Indonesia's 'unlawful' ban. The bans will also complicate the economics of projects for multinationals within the country, which need to abide by stringent ownership policies that privilege Indonesian stakeholders within capital structures. The announcement leaves little time for off-takers to secure alternative sources of mineral production – particularly for nickel and bauxite which are key in global semiconductor, and electric vehicle production. The full timeline of Jokowi's plan remains to be seen, but the Indonesian approach is another instance of changed fundamentals in global mineral markets and supply chains.

Energy supermajors formally withdraw from contracts in Myanmar after a year of 'wait and watch'
Withdrawals from major contracts and sweeping new sanctions could leave room for Chinese companies to step in

This week, three energy majors have formally withdrawn from contracts in **Myanmar** amid the country's deteriorating political and security situation. After pausing operations for 11 months, **Australia**'s Woodside Petroleum announced it will relinquish all its exploration licenses and sever its production-sharing agreement with the state-owned Myanmar Oil and Gas Enterprise. Woodside's move followed TotalEnergies' and Chevron's withdrawal of their minority stakes in the Yadana natural as project earlier this month.

The companies had been under pressure from shareholders to withdraw from Myanmar to limit support for the military junta. With international oil and gas companies exiting the country, the junta will need to look elsewhere for foreign investment and technology. Natural gas projects in Myanmar currently account for 50 percent of the state's foreign currency and the industry generates more than US$1 billion in revenue for the junta each year. The terms of the Yadana agreement stipulate that the operating role will be taken over by another partner. The state-owned Petroleum Authority of **Thailand** (known as PTT) is the remaining foreign project partner and it is "considering" its options. **Chinese** companies such as China National Petroleum Corporation may be well placed to capitalise on the opportunity. China has referred to junta leader General Min Aung Hlaing as the "leader of Myanmar", a statement seen as de facto recognition. Chinese companies are likely to fill other vacuums left by the withdrawal of international oil companies.

China tries senior former minister who was part of an opposition faction
Sun Lijun is set to go to trial early this year on a myriad of charges

President **Xi Jinping** continues to escalate his parties' nine-year anti-corruption campaign. More than 2 million former officials have been sent for trial and/or or jailed since the campaign began. The former vice minister of Public Security, Sun Lijun is the latest official to be arraigned after confessing to accepting 90 million yuan (circa. US$13 million) in bribes. Lijun was the most senior **Chinese** official in Hong Kong during the 2019 and 2020 protests. China's former chief of e–commerce and the former deputy chief of the Guizhou province were also sentenced earlier this month. The perception that the three former officials were close to private enterprise is believed to have played a key factor to their removal from office.

Lijun was allied to a group within the party – known as the 'Shanghai Faction' – associated with former President Jiang Zemin. The group was alleged to be planning a coup against Xi. Lijun. The 'plot' will appear in a documentary series 'Zero Tolerance', produced by the state broadcaster China Central Television. The new series is set to air all 16 major corruption cases, with the confession tapes of the accused to be centrepieces of the programme.

The new series and trials are set against the party's broader regulatory crackdown on the tech and crumbling real estate industry. The upcoming 20th Party Congress, scheduled for October – at which Xi aims to secure at least another term – is also a contributing factor to the programme's timing. Whether Sun is representative of a serious and broad-based opposition is not clear. Xi is not about to take any chances.

Kabul faces increasing strife amid economic degradation
Crisis continues in Afghanistan with the AFN plummeting

Afghanistan is in free-fall. Its economy is frozen, and 23 million Afghans face hunger. The lack of liquidity and restrictions on the banking sector linked to international sanctions has resulted in 70 percent of teachers working without salaries, millions of students out of school and the health sector in peril.

To strengthen the exchange rate – currently at around 94 afghani to the US dollar – the Taliban has prohibited foreign exchange transactions. Taliban officials have emphasised that "the country's economic situation and national interest require that all Afghans use Afghan currency in trades and businesses."

Last week's meetings in Oslo between the Taliban Foreign Minister, Amir Khan Muttaqi, **US** Envoy, Zalmay Mamozy Khalilzad, and members of civil society further legitimised the Taliban 'interim administration'. Despite this, and the absence of any unified domestic political opposition now (or on the horizon), it remains unlikely that any one country will take the step to recognise the Taliban authorities in the short-term. The consequence is that the Taliban cannot access their foreign exchange reserves or engage in international financial markets.

EU's development bank faces criticism over delivery against pro-democracy mandate
The EBRD's performance against its 'pro-democracy' mandate has come under scrutiny again as it continues to fund projects in countries with authoritarian regimes

The European Bank for Reconstruction and Development (EBRD) – the **EU**'s multilateral development bank – has come under scrutiny for misalignment with its explicit commitment to support projects in nations that promote democracy. It currently lends over €10 billion (circa US$15 billion) annually for projects in countries with authoritarian leaders, including **Egypt**, **Turkey**, **Belarus**, and **Kazakhstan.**

Of the nearly 40 countries across Europe, north Africa and Asia in which the ERBD is active, Turkey has accounted for the lion's share of ERBD loans. Since 2008, the bank has provided approximately €15 billion for projects in the country. The funding came amid concerns that President **Erdogan** had been funnelling more than €7 billion of the country's finances last year to prop up the lira. In November, the EBRD announced that it would lend an additional €150m (circa US$169m) to the Government to build a high-speed train line. While it argued that most of its portfolio in Turkey involved private sector investment, this includes public-private partnership arrangements and multiple forms of public sector support.

Article 1 of the ERBD's founding agreement calls for the bank to "foster the transition towards open market-oriented economies." Critics suggest the EBRD has two options: cease operations in recalcitrant authoritarian jurisdictions or remove its founding pro–democracy commitment altogether. Investors and project proponents hoping to leverage ERBD finance will be watching the debate closely.