

Dragoman Digest

China's current COVID policy threatens to hinder economic growth

Beijing sticks with its zero-COVID policy as supply chains take a hit

A sharp increase in COVID19 infections in **China** means that a total of 37 million people in Shenzhen – China's tech and manufacturing hub – and Changchun, the largest automobile manufacturing centre in the country, are now locked down. Residents of Jilin province require a police permit to travel, whilst Beijing has had to downplay rumours that Shanghai would be locked down. While lockdowns have been a consistent feature of China's strategy, the latest restrictions are far more widespread and have no end date in sight.

Factories in Shenzhen have been ordered to close and all other non-essential businesses have been forced to suspend operations. Foxconn Technology Group, a key producer of iPhones and computers, warned that continued factory shutdowns and roadblocks between warehouses and the port could see shipments stalled dramatically. There are currently 34 vessels waiting to dock off Shenzhen, compared to an average of seven in 2021. Over 40 Taiwanese companies that produce circuit boards and semiconductors have halted production. Many expect their business to be shut until at least the end of the month.

Continued disruptions to industry and production threaten to curtail the nation's progress towards the (already revised down) 5.5 percent GDP goal set earlier this month, with some projecting a potential 0.8 percent cost to GDP growth.

Paramount leader **Xi Jinping** has been steadfast in his commitment to China's zero-COVID policy. With the 20th Party Congress due this year – where Xi aims to secure a third-term – surging caseloads and stalled economic growth will raise serious questions as to the continued viability of the policy.

Russia positioned to reassert its influence on the Red Sea

The potential opening of a naval base signals a new development in Russia-Sudan relations
Amid deepening political and economic isolation, **Russia** has stepped up its engagement across Africa and the Middle East. In the month leading up to the invasion, senior representatives from **Syria**, **Mali** and **Sudan** met with Kremlin officials to bed down several economic and security agreements.

One of the most recent developments has been the announcement that Sudan is once again open to allowing the Kremlin to build a naval base on the Red Sea. The deal had previously been proposed in 2020 but was reaffirmed when the deputy head of Sudan's ruling council, General Dagalo's – also known as Hemedti – visited the Kremlin on the eve of Russia's invasion. A military base in Port Sudan would give Russia access to the Suez Canal and key shipping routes. It would also strengthen its force posture in the Arabian Sea and the Indian Ocean.

US officials have expressed concern that Russia will use the base to threaten NATO's southern flank and security in the Mediterranean Sea. Whether Sudan will follow through with the deal – which has become inherently more controversial following the invasion of Ukraine – remains to be seen. Securing a base in Sudan will be an important sign that despite Western sanctions and overwhelming UN condemnation of its invasion, Russia is not entirely isolated.

Johnson government to announce major energy investment

The new strategy comes as the UK scrambles to wean itself off Russian oil and gas

Next week, Prime Minister **Boris Johnson** will outline a new energy security strategy after the **UK** announced it would phase out Russian oil imports by the end of the year and gas imports over an unspecified period. More investment in wind farms and nuclear power is anticipated in the new strategy to reduce the nation's reliance on Russian energy. The UK currently imports 8 percent of its gas and 4 percent of its oil from **Russia**.

To diversify its energy supply, the UK will also build partnerships with the **US**, the **Netherlands** and the Gulf. This week, Johnson visited **Saudi Arabia** and the **UAE** in a bid to secure additional crude oil output and gas supplies. The success of the latter part of this approach is far from assured, with Saudi refusing to increase output, restating its commitment to its agreement with Russia.

Russia's invasion has added a new impetus to decarbonisation and energy security efforts, however Johnson will have to navigate opposition within his cabinet. The suggestion of more onshore and offshore windfarms has been controversial within the Conservative party – however national energy security is now front of mind. The UK currently has 14 GW of onshore wind capacity installed, with Octopus Energy estimating that an additional 9.6 GW would be needed to remove dependency on Russian gas imports. Gas would still be required from other sources for firming.

Plans to revive the Wylfa nuclear plant in Anglesey has been highlighted by observers as an area of potential investment. The plant would generate enough energy to power six million homes by mid-2030. The government has already set aside £120 million to the project. While the specifics of the strategy remain to be seen, the latest meetings and rhetoric from Johnson signals that major investment is coming.

New president marks potential shift in South Korean foreign policy

The change may be welcomed by Quad partners

Conservative People Power Party (PPP) candidate **Yoon Suk-yeol** has been elected president of **South Korea** by a margin of less than 1 percent over Democratic Party rival Lee Jae-Myung. He will replace current President **Moon Jae-in** from the Democratic Party. Moon leaves office in May. His election could herald a shift in the nation's foreign policy.

Yoon has pledged to deepen South Korea's ties with the **US** and take a stronger position to counter **China**. He plans to join Quad (Quadrilateral Strategic Dialogue) Working Groups on climate change and emerging technologies, and has left open the possibility of formally joining the group. Yoon's posture on China is notably more assertive than Moon's. For example, Yoon plans to deploy an additional US THAAD anti-missile system. The deployment of the same system in 2016 saw China impose harsh sanctions on Seoul, resulting in an estimated US\$7.5bn hit to GDP (0.5 percent). Yoon has also announced the resumption of joint **US-South Korea** military drills, which had previously been scaled down under the Moon administration to placate **North Korea**.

Yoon's win is potentially welcome news to **Australia**, the **US**, and **Japan** – Yoon has taken a notably less anti-Japanese stance. It remains to be seen however, whether his campaign promises will translate into concrete action. The prospect of Chinese economic retaliation coupled with a more assertive North Korea may limit his ambition.

Companies deploy unorthodox methods to mitigate supply chain disruptions

Growing procurement instability has sparked innovative approaches to supply chain management

Major **Japanese** manufacturers are taking steps to secure their supply chains amid the twin shocks of the pandemic and **Russia's** invasion of **Ukraine**. A clear shift away from a "just in time" supply chain approach is evident.

A few examples go beyond traditional approaches like stockpiling and concessional terms for suppliers. Nissan is sending workers that specialise in procurement and production management directly to suppliers to discuss ways to secure alternative sources for key materials. NSK – a machinery manufacturing company – is relocating workers to its business partners to address disruptions in supply chains. Mitsubishi Electric intends to create a shared inventory management system with partners by 2025.

Despite these changes, there are growing concerns that few companies have business continuity plans in place. The issue is particularly acute for smaller businesses that are at higher risk of closure. Escalation in the Ukraine conflict or increased Chinese aggression towards **Taiwan** would add further stress to an already strained system.