Dragoman Digest

Putin accepts Indonesia's G20 invitation

Russian attendance risks derailing summit and driving a further wedge in the Quad

Yesterday, **Russia**'s Ambassador to **Indonesia** Lyudmila Vorobyova confirmed that President Putin intends to attend the G20 summit, scheduled to be held in Bali later this year. For Jakarta and President Jokowi in particular, before the Ukraine crisis, hosting the G20 had been seen as a way to elevate Indonesia's international status and diplomatic credentials.

Putin's attendance places Jakarta is an awkward spot. It voted for the United Nations General Assembly resolution condemning the Russian invasion, but Indonesia's response has otherwise been typically muted. Though far eclipsed by Indonesia's relationship with other major powers, Moscow and Jakarta have a significant defence relationship. Indonesia has imported over US$2.5 billion in Russian military wares over the last two decades. In late November, Russia and **ASEAN** nations held joint military drills in Indonesian territorial waters featuring a Russian anti-submarine destroyer.

Perhaps more materially, the prospect of Russia's attendance could force Indonesia to pick sides – something that Indonesia is loath to do. Western countries including **Australia** and the **US** have made it clear that Russia should be booted from the multilateral forum. Specifically, personal sanctions have been imposed on both Putin and his foreign minister, Sergei Lavrov. On the other hand, **China** has defended Russia's right to participate. Given its obstinate refusal to condemn Russia's invasion and its longstanding quasi-alliance with Moscow, an **Indian** veto would also be likely.

With there being no clear procedure or path to exclude Russia from the G20, a Western boycott is a realistic possibility. Managing this growing fissure point will be a key test of Jakarta's typically low-key and conflict averse diplomacy.

Saudi Arabia considers pricing oil sales in yuan

Rhetoric comes amid persistent frustrations between Riyadh and Washington

Saudi Arabia is reportedly moving closer to accepting the **Chinese** yuan as payment for some of its oil exports to China. The proposal comes as state-owned Saudi Aramco finalised a deal last week to supply up to 210,000 barrels of crude oil feedstock per day to an integrated refining and petrochemical complex in northeast China with a 300,000 bopd refinery capacity, a step up in the relationship between the two countries. Given the value of payments concerned, the proposed move is more likely symbolic than a substantive threat to USD dominance in payments for oil – 80 percent of global oil sales are priced in USD.

Further, there are reasons for the Kingdom to be cautious. Unlike the highly liquid US dollar, there are strong capital controls on the yuan. It is not freely convertible. This will likely make the prospect of receiving yuan payments far less attractive. Talk of payment in yuan is not new, having initially been proposed by de facto leader Crown Prince **Mohammed bin Salman** in 2016.

Tensions have persisted between the Crown Prince and President **Biden** over the US' lack of support for Riyadh's intervention in Yemen, Biden's condemnation of human rights abuses in the Kingdom and the US' attempt to revive the **Iran** nuclear deal. Riyadh's yuan ploy appears to be a pointed message to Washington.

Japan moves to dilute China's lead in setting 6G standards

Tokyo announces a slew of collaborations to bolster its developments in the sector

At least six prominent **Japanese** companies – including Panasonic, NEC, Toyota Motor and Rakuten mobile – have joined Japan's Beyond 5G Promotion Consortium in an attempt to gain a competitive edge in the 6G development race. Japan has lagged **China** in 5G technology development and has identified 6G as an opportunity to reverse China's lead. The Beyond 5G Consortium was established in December 2020 to share information among "industry, academia, and government".

The enlarged consortium will submit technological and industry standards ahead of an International Telecommunication Union (ITU) working group meeting. The ITU is the United Nations agency that assists in setting global telecom industry standards. The working group ultimately intends to establish technical requirements for 6G networks by June 2023.

The consortium is just one part of Japan's multifaceted 6G strategy. In 2020, NTT – Japan's largest telecom – took a 5 percent stake in NEC with a view to jointly developing 5G and 6G technology. Japan signed a US$4.5 billion joint R&D collaboration agreement with the **US** last year and is also cooperating with **Finland**. As of September last year, China had the most 6G patent applications accounting for more than 40 percent of the global total. However, when their respective shares are combined, the US (35 percent) and Japan (10 percent) are ahead. This week, officials from the US, Japan, **India** and **Australia** met in Sydney for 'Quad' discussions on cyber security policy to promote common standards and share technology. With China's flagship telecommunications company Huawei experiencing sharp revenue declines due to US sanctions, Beijing will face stiff competition against combined Japanese and US initiatives – as well as established market-leading Europeans.

Guinea's Simandou halted once again

The latest delay hinders China's plans to reduce its dependence on Australia

Guinea's ruling junta President **Mamady Doumbouya** has ordered that all activity at the Simandou iron ore deposit be halted. The move appears to be part of a strategy to pressure the participating companies to collaborate in developing a 670km railway to transport the ore to market.

The latest pause follows two decades of stalled progress, amid mining rights disputes, political turmoil, and volatile iron ore prices. The mine also has a complex investor landscape. **UK**/**Australia**'s Rio Tinto holds a 45 percent stake in the southern Blocks 3 and 4 of the project, with **China**'s Chinalco holding 40 percent, and the Guinean government holding the remaining 15 percent. Chinese-backed SMB-Winning consortium also won a government tender in November 2019 for the right to develop Blocks 1 and 2 of Simandou. China has long had a strategic objective of reducing its reliance on Australian iron ore.

The latest setback underscores how difficult it will be for China to achieve this. At full production, the mine is expected to export up to 100 million tons per year, maintaining a stable 7 percent share of global iron ore supply based on 2020 estimates. Late last year, Beijing outlined a multi-step five-year plan (FYP) to decrease its dependence on **Brazilian** and Australian iron ore. The FYP included an explicit target for the share of iron ore imports from mines with Chinese equity holders – above 20 percent, up from the current level of 8 percent. Getting Simandou off the ground will be vital to this longer-term objective. China does hold non-controlling interests in Australian produced iron ore, including a 12 percent interest in Rio (through the Aluminum Corporation of China – known as Chinalco) and a 9 percent interest in Fortescue mining (via Hunan Valin). China is in a joint venture that controls the Port Talbot production from Clive Palmer's iron ore mine.

Volatile commodity prices hit supply chain managers

Funding requirements for shipments have soared, pushing smaller operators out of the market

The volatility in commodity markets resulting from **Russia'**s invasion of **Ukraine** has been widely reported. Less so, some of the second order impacts that are still emerging. One striking example is the increased capital requirements being imposed on supply chain managers. Supply chain managers play a critical role in the flow of goods globally, benefitting from physical arbitrage opportunities in the process.

However, as commodity prices have surged, the funding requirement for shipments, and the cost of hedging against price volatility have increased substantially. It has been reported that the cost of hedging as a proportion of the value of the physical cargoes has risen to over 75 percent of the value of the cargo being moved.

These increased capital requirements have put pressure on traders' balance sheets, precluding smaller operators from bidding on some cargoes. The lack of competition in the market is contributing to supply chain bottlenecks and increased shipping costs – a significant element of consumer prices. Trades between countries completely removed from the Russo-Ukrainian conflict are being affected. Another inflationary force has been added to the mix at a time when governments and central banks are concerned about price stability.

Leftist candidate emerges as front runner in Colombia's presidential elections

Gustavo Petro has pledged to stop all oil exploration projects if elected

Leftist ex-guerilla fighter Gustavo Petro has emerged as **Colombia**'s top presidential candidate after primaries were held last week, winning approximately 80 percent of votes. This was double the share won by right-wing candidate Federico Gutierrez, his closest rival. The election is scheduled for May 29. If he wins, Petro will be Colombia's first left-wing president and would overhaul the country's resources policy.

Petro has pledged to halt all oil exploration projects – pushing Colombia to focus on manufacturing, agriculture, and tourism. Current President **Iván Duque** set out to double the country's oil reserves when he first took office in 2018. Fossil fuels generate half of Colombia's export revenue. The country produces more than 700,000 bopd, making it the third-largest Latin American producer after **Brazil** and **Venezuela**.

The latest primary swing mirrors trends in **Chile, Mexico** and **Peru**, which have shifted to the left, with candidates pledging to diversify their economies away from a dependence on fossil fuels and mining. While Petro is unlikely to obtain the congressional majority needed to advance his agenda, his overwhelming victory in the primary may herald fundamental change in Colombian politics.