China directs party elites to limit overseas assets holdings

Sanctions imposed on Russian oligarchs among the motives for Beijing's move

Last week, it was reported that senior **Chinese** Community Party members have been barred from owning property or stakes in overseas entities. The leaked directive, initially given to party members in March, also prohibits spouses and children of ministerial-level officials from holding real estate abroad or setting up accounts with overseas financial institutions, except for 'legitimate reasons' such as work or study. Officials must sign pledges declaring compliance. It has been reported that the Communist Party will block promotions for senior officials who defy the rules. At this stage, it remains unclear whether the directive will require officials to divest assets already held.

Some have interpreted the directions as a signal that paramount leader **Xi Jinping** is pre-emptively seeking to blunt the efficacy of any future **Russia**-style sanction regime that could be imposed on China.

While Russian sanctions are one possible explanation, others have been in play. Since 2014, the Party has demanded greater disclosure from members over their investments after discovering that over 3,200 officials used their spouses and children to stash financial assets overseas. The desire to curtail overseas asset holdings is partly due to public disquiet at the level of hidden party wealth, which sparked a series of protests in the early 2010s. Ultimately, both domestic drivers and the desire for greater foreign policy manoeuvrability appear to be driving the Party's overseas asset ban.

Lack of quality environmental and emissions data threatens to hinder China's climate goals

Companies lack incentives to improve emissions data

Quality environmental and emissions data remains something of an Achilles' heel for **China**'s energy transition. While more companies are disclosing their carbon emissions, many base their disclosures on estimation models rather than actual measurements. Subsequently, poor data quality has contributed to a degree of mistrust in companies' reporting. Two recent developments illustrate this – the postponement of both the expansion of China's Emissions Trading Scheme (ETS) and the introduction of a mandatory ESG disclosure regime.

On May 12, Caixin reported that the inclusion of steel, nonferrous metals and building materials sectors in China's ETS may be delayed to as late as 2025 due to poor data quality. At present, only 2,162 companies in the electricity sector have been trading on the ETS. Steel, nonferrous metals and building materials had been widely viewed as some of the low-hanging fruit for inclusion as early as this year. At the April Boao Forum, the vice chairman of the China Securities Regulatory Commission, Fang Xinghai, delayed the imposition of a mandatory ESG reporting scheme for China's nearly 5,000 A-share companies (companies listed in Shanghai or Shenzhen). He emphasised that considerable work would be required to improve the accuracy of collected data.

Both examples point to a chicken and egg problem. Until reporting becomes mandatory and the ETS expands, firms currently will have little incentive to improve their emissions data. However, both cannot occur until data quality improves. Until China finds a way to cut this Gordian knot, it will continue to face headwinds in meeting some of its more ambitious climate goals.

Japan announces major investment in decarbonisation fund

The financial pledge comes amid broader energy challenges

Last week, the **Japanese** government announced plans to establish a 20 trillion yen (US$155 billion) fund to direct investment toward green technologies. The fund appears to be an expansion of Prime Minster **Kishida**'s green innovation US$16 billion fund announced in April. The focus of the fund is broad, but with notable emphasis on technology such as smart grids. It will also support the supply of fossil fuel alternatives such as hydrogen and ammonia. Tokyo plans to fund the investment through a carbon tax (a pilot emissions trading scheme was launched early this month) and utility charges. Full details of the green fund will be revealed in Kishida's "new capitalism" policy framework, set to be finalised in June.

Energy security has long been a challenge for Japan. Wind and solar power are less viable for the country due to its lack of suitable land. Soaring energy costs are a further short to mid-term challenge, with Japan reliant on imports for more than 90 percent of its energy needs. Japan's reluctance to reactivate its nuclear power fleet is another complicating factor. To overcome these obstacles, the Ministry of Economy, Trade and Industry (METI) estimates that the public and private sectors need to invest around 17 trillion yen (US$133 billion) a year in decarbonisation initiatives by 2030 to reach net zero by 2050. It currently invests about 4.8 trillion yen (US$38 billion) annually. The latest fund is a significant step in addressing the financing gap needed to achieve Japan's net zero commitment.

US considers tightening screening of outbound investments

Both sides of Congress are eager to blunt Chinese technological competitiveness

There is increasing bipartisan support in the **US** for the enhanced screening of outbound investments, particularly relating to **China**. Washington has employed a myriad of policy tools in recent years to address concerns that US capital and technology are aiding China's tech and military push. In 2020, for example, the US issued an Executive Order under the International Emergency Economic Powers Act (IEEPA). The order prohibited US persons from transacting in publicly traded securities of Chinese companies, designated by the government to be part of the Chinese military-industrial complex – producing, for example, surveillance technology. Now, there is growing support for a CFIUS-like (Committee on Foreign Investment in the United States) review of outbound investments into technology areas in China.

This is most clearly demonstrated through the National Critical Capabilities Defense Act of 2021 (NCCDA), co-authored by Republican Senator Bob Casey and Democrat Senator John Cornyn. The NCCDA would create an interagency body, chaired by the US trade representative, to review outbound US investment. The body will screen US investments in China across critical technology fields including energy security, natural resources, and health security. This expands previous review processes, by also covering companies investing in their own subsidiaries in China, and even those outsourcing on a contract basis.

The **Biden** administration broadly agrees with the need to screen outbound investment, though is likely to take a more targeted approach, probably through the promulgation of an Executive Order. Of course, for the restrictions to be effective and avoid collateral damage to domestic industries, the US will need to align its approach with allies – no easy task. Nonetheless, the fact that legislation like the NCCDA is being seriously considered by Washington signals a shift away from the seamless globalisation once pioneered by the US.

Iran-backed Hezbollah loses parliamentary majority in Lebanon

With no party able to form government, further political and financial instability loom

Last week, the Shia Muslim Hezbollah movement unexpectedly lost its majority in **Lebanon**'s parliament. While Hezbollah and its Shia partner Amal retained all of their seats, their key Christian ally, the Free Patriotic Movement lost significantly. Combined, Hezbollah and its allies won 62 of 128 seats, a far fall from their 71 majority in 2018. 13 'anti-establishment' independents have won so far, promising major economic reforms and justice for victims of the 2020 Beirut explosion. No party has emerged as the outright winner. The elections are the first since the country's economic crash in 2018. Since 2018, Lebanon's currency has lost approximately 90 percent of its value against the US dollar. Last month inflation hit 206 percent.

While the election of several independents could be viewed as a transformative change, the shift has the potential to create further political deadlock. The formation of a coalition government involving the new independents will likely take months. Whatever unwieldy coalition emerges could complicate Lebanon's bid to access crucial International Monetary Fund (IMF) support. In April, Lebanon's outgoing government approved a recovery plan. The recovery plan was a key IMF demand as part of its conditional agreement for aid. One requirement is the reform of capital control laws which prevented the withdrawal of US dollars from bank accounts – meaning depositors could only withdraw their money in the Lebanese pound at an inflated rate. Without a clear leader or majority parliament, the timeline for enacting these key reforms will likely be extended.