Dragoman Digest

Chinese exports to Russia rebound

Soaring semiconductor exports to Russia may test the West's appetite for confrontation with China

China's exports to **Russia** have now recovered to near pre-war levels. Russia purchased nearly US$7 billion worth of goods from China in July, up more than a third from the previous month and over 20 percent year on year. In contrast, China's imports from Russia increased only slightly last month after falling in June, according to data from China's customs administration. After adopting a 'wait and see' approach earlier in the year, Chinese exporters appear more confident in their ability to evade sanctions. Trade is increasingly conducted in RMB and rubles. Yuan trading has risen more than 40-fold on the Moscow Exchange this year.

After the **US** warned in March that Chinese companies circumventing US sanctions would face "devastating" export controls, Washington now appears reluctant to impose secondary sanctions. However, an extraordinary increase in Chinese semiconductor exports – while there has already been tightening export controls on Chinese semiconductor inputs – raises the risk that certain Chinese firms will be targeted with secondary sanctions. Chinese semiconductor exports surged 209 percent year-on-year across March to June. One Russian motherboard manufacturer has modified its products to accommodate Chinese-made chips. Most semiconductors produced globally have at least some US, European or Japanese content, potentially violating export controls.

Vietnam's property market woes mirror some of China's early travails

Authorities have moved to curb risk in Vietnam's property market

China's property crisis could serve as a warning sign to **Vietnam**. While Vietnam's property sector has typically accounted for around 7 percent of its GDP, far less than China's 30 percent, tactics deployed by Vietnamese developers bear some similarity to those in China before its crash.

Vietnam has had several scandals at major property developers. In March this year, the Chairman of Vietnam's FLC Group, Trinh Van Quyet was detained for stock market manipulation. In April, the chairman of developer Tan Hoang Minh Group was arrested for luring investors with false financial information, raising over US$427 million from selling privately based bonds. Similar tactics were deployed by China's Evergrande in 2021.

So called 'pre-sales' also dominate Vietnam's primary residential market. Pre-sales allow developers to receive the sale proceeds upfront before construction has finished. In China, debt-laden companies, such as Evergrande, had grown reliant on pre-sales for liquidity. Many could not finish pre-sold apartment projects and will potentially require huge government bailouts to do so. Similarly in 2019, a luxury residential project developed by Novaland Investment JSC in Ho Chi Minh said it did not have the money to finish over 187 pre-purchased apartments. Later that year, Ho Chi Minh-headquartered Alibaba Real Estate Corporation duped investors into contributing over US$100 million for projects that did not exist.

Vietnam has taken some steps to prevent a China-style melt down. The central bank has requested that commercial lenders tighten lending, and mortgage loans are now more difficult to attain. Whether this will be enough to curb further troubles remains to be seen.

US charts course to include natural assets on national balance sheet

The metrics will draw on international standards set by the United Nations

Washington has outlined a plan to develop a set of statistics that measures the value of its natural resources or 'natural capital.' The White House's draft *National Strategy to Develop Statistics for Environmental-Economic Decisions* was released last week. The US will develop a new headline indicator – a change in 'wealth held in nature,' known as *Natural Asset Wealth* and an associated system of 'environmental-economic statistics.' Changes to Natural Asset Wealth will be used alongside changes to other economic indicators, such as GDP and inflation. In 2024, the US will begin measuring changes in natural capital wealth and piloting natural capital accounts across several areas, including pollinators and forests. They aim to have the full system operational by 2036.

The United Nation's System of Environmental Economic Accounting (SEEA) – the international standard – will guide the development of Washington's natural capital accounts. SEEA quantifies natural capital by measuring flows between the economy and the environment, the stock of assets and economic activity related to the environment. However, applying a monetary value to natural capital is notoriously difficult, particularly where there are no standardised systems for measurement and data quality is uneven – such as for pollinators, migratory birds and soil ecosystems. Ultimately, as the strategy is implemented, its scope may be narrowed to account for such difficulties.

Shareholder dispute in Congo threatens global cobalt supply

More mining contracts may be in the crosshairs

A rift between shareholders of one of the biggest cobalt mines in the **Democratic Republic of Congo** (DRC) is deepening. The dispute between **China**'s Molybdenum (CMOC) and state-owned Gecamines over the Tenke Fungurume copper and cobalt mine began last August. The DRC had formed a commission to reassess the reserves at the mine. CMOC has an 80 percent stake in the mines holding company. Gecamines has a 20 percent stake. Tensions escalated in June when Gecamines accused CMOC of underreporting the mines reserves and said it owed the company US$7.6 billion in royalties and interest. In July, a DRC court-appointed administrator suspended exports from the mine until a new sales contract is agreed.

While the full effects of the halt will take some time to be seen, a prolonged suspension of exports would likely disrupt global cobalt supply – a critical input to EV batteries. The mine accounts for around 14 percent of the world's cobalt and produces around 200,000 tonnes of copper. Cobalt prices reached US$70,000 per tonne in June this year, up from US$51,000 at the same time last year. Other mines may be in the firing line. **President Felix Tshisekedi** has promised to renegotiate mining deals made with foreign partners to deliver "win-win partnerships." He will pay particular attention to contracts agreed under his predecessor, Joseph Kabila – which he maintains are tainted by corruption. In April, the DRC created an ad-hoc commission to assess Glencore Plc's Mutanda mines. In 2018, its last year of full production, the mine produced around 20 percent of the world's cobalt and 200,000 tonnes of copper.

Japanese automotive companies invest across Africa

Political commitment to the continent and a new free trade agreement has created opportunities

A slew of **Japanese** automotive companies are increasing their investment in Africa. Mitsubishi began producing internal combustion engine commercial vehicles in **Kenya** in early August. Toyota Motor and Isuzu Motor also plan to step up their production in the country. The automakers appear to be taking advantage of the 2021 African Continental Free Trade Agreement (FTA), which will eliminate 90 percent of tariffs on goods within five years. As tariffs are removed, Mitsubishi will raise the ratio of locally produced parts and examine the possibility of exporting vehicles to Kenya's neighbours. All 54 members of the African Union except **Eritrea** are included in the FTA.

Mitsubishi intends to develop Africa into its second core market after Southeast Asia. In 2021, only 2 percent of its global sales were in Africa. Africa is set to be a major growth market with its population forecast to double to 2.5 billion by 2050. Car sales are expected to double from 2021 to 1.4 million units per year by 2030. Despite the small market, the pace of project growth is faster than markets in Southeast Asia, estimated to grow approximately 50 percent across the same period. Africa's traditional used vehicle market dominance is also changing. Currently, the used car market is estimated to be three to four times larger than the market for new cars. However, several countries including **South Africa** and Kenya have recently introduced restrictions on the imports of used cars in order to grow the local car assembly industry. Kenya will stop importing second hand cars by 2026. This, alongside the FTA already appears to be paying dividends. Kenyan auto sales company Associated Vehicle Assembles (AVA) will be responsible for the production of Mitsubishi's mainline pickup truck in Africa.