

Dragoman Digest

European wind industry risks ceding market share to Chinese competitors

Chinese turbine manufacturers remain largely insulated from increasing material costs

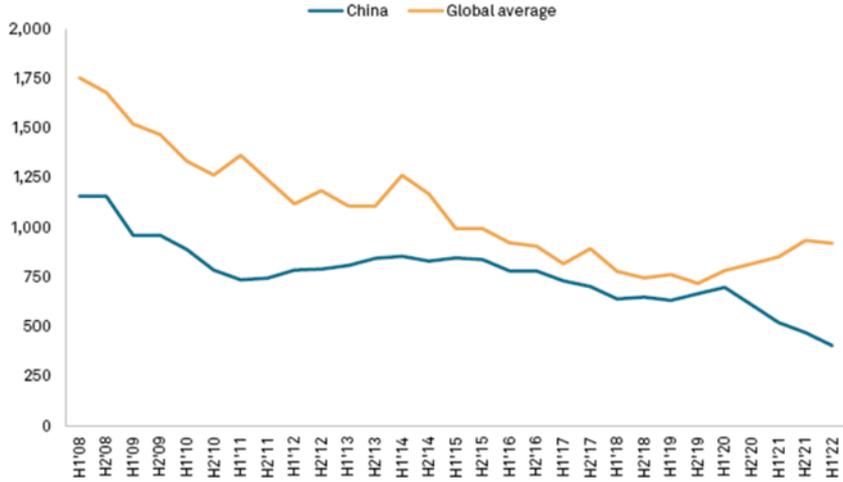
Despite growing demand within the **EU**, several European wind turbine manufacturers are currently mired in significant [financial](#) woes. The biggest factor affecting margins is the rise in the price of key materials including steel, copper and resin which have all [doubled](#) in the two years to Q1 2022.

As prices for most turbines are locked in via contract years in advance, manufacturers have struggled to pass on costs. **Spain and Germany's** Siemens Gamesa, the world's largest offshore wind turbine maker, reported its first quarterly loss in nearly 12 years – losing nearly [US\\$1.5bn](#) in the three months to the end of June. In Q2, the price of its onshore turbines increased 41 percent to [US\\$878,000/MW](#). These rising costs have sparked concerns that **Chinese** competitors could move to displace European manufacturers.

Chinese wind turbine manufacturers have [benefited](#) from a lower cost base. This can be attributed to a myriad of factors, not least being China's oversaturated steel supply and huge economies of scale enjoyed by manufacturers. Bids for new Chinese-made turbines have fallen from [US\\$700,000/MW](#) in early 2020, to approximately US\$370,000/MW in April.

Until now, the EU's stringent quality specifications and grid compatibility have held back any major European export push. Ample domestic demand has also lessened the incentive of Chinese manufacturers to export. However, an increasingly competitive local market may change this dynamic. For Europe, the concern will be that without drastic steps, its Green New Deal will be made in China.

Chinese wind turbine prices well below global average (\$000/MW)



Data accessed Sept. 14, 2022. Sources: BloombergNEF; Institute for Energy Economics and Financial Analysis research

Evidence of modest progress in Australia's trade diversification push

Trade flows diverted to ASEAN, India, Japan and Korea

Recent **Australian** Bureau of Statistics (ABS) data was likely well received in Canberra. In the past 12 months to August, **China's** share of Australian exports by value was down to [29.5](#) percent – a far cry from its peak of 42.1 percent a year ago. This is the first time since October 2015 that China's share of Australian exports in a 12-month period has dropped below 30 percent. China's share of imports has also slipped. Beijing's share of imports peaked in the 12 months to March 2021 at 29.8 percent, falling to 27.2 percent in the past year to August. In a sign that the decline may continue, China's share of imports was 25.9 percent in the past three months.

Beijing's declining share of Australian trade has seen other trade partners pick up the slack. **South Korea, India, Taiwan** and ASEAN group members now collectively account for a larger share of Australian trade than China, taking 33.2 percent of Australian exports and 28.5 percent of imports. **Japan's** purchase of Australian goods also dramatically increased, nearly doubling to 17.9 percent in the year to August – the highest percentage since early 2015.

Of course, one year of data is not necessarily concrete evidence of a trend. The decrease in China's share of exports by value is in part a natural corollary of the fall in global iron ore prices, currently trading at [US\\$91](#) per tonne – down from a peak of [US\\$220](#) last July. Canberra will be hoping that an interim trade deal with India, and perhaps a future deal with the **EU**, will see diversification continue.

China's EV start-ups buck the trend of VC decline

The auto sector is outperforming other strategically prioritised sectors

Despite a broader venture capital (VC) decline, **China's** auto start-up sector is thriving, securing over nearly US\$6 billion in investment so far this year. This is more than the US\$4.9 billion and US\$4.8 billion received by battery and semiconductor companies, respectively. This comes despite the value of venture deals in China falling [44 percent](#) to US\$24.7 billion in Q1 this year compared to 2021. Since [late 2020](#), China has cracked down on tech giants with new regulations around data collection, the processing of personal information, and moved to dilute monopolies. This has diverted VC flows away from so called soft-tech sectors, toward "harder" areas like automotives, semiconductors and robotics.

Several EV deals were well in excess of US\$1 billion. Changjiang Capital, for example, invested US\$1.57 billion in a high-end electric car start-up founded by Renault China CEO Soh Weiming. Record VC funding, combined with local government support is helping an already booming sector – China's five largest EV start-ups have local governments as minority investors. Global EV sales doubled in 2021 to a high of 6.6 million – with China alone accounting for half of this growth. By all accounts, China's EV sector will remain well poised to cash in on this growing demand

Pakistan's IMF bailout loan tests relationship with China

IMF package commits Pakistan to seeking more favourable arrangements with Chinese power producers

Pakistan's intimate relationship with **China** may be challenged under the terms of its US\$6.5 IMF bailout package agreed to in August. Under the [terms](#) of the agreement, Pakistan will be required to renegotiate power contracts made with around 30 Chinese independent power producers (IPPs), representing around 50 percent of all IPPs in Pakistan. As well as having a firm grip on the Pakistani market, Chinese IPPs have highly favourable pricing arrangements. This includes "take or pay" provisions which require Islamabad's payment regardless of whether there is demand for electricity. IPPs have also been willing to use their leverage to try to recoup billions in debt that Pakistan has accrued. Following the government's failure to pay US\$1.5 billion in debt accrued through take or pay provisions, the IPPs shut down multiple power plants causing blackouts across the country.

The IMF's condition, which it sees as necessary to rebuild Pakistan's finances, comes amidst broader complications in the bilateral relationship. This year Pakistan [refused](#) Beijing's request to allow the stationing of Chinese security companies in Pakistan after ethnic separatists staged several attacks on Chinese nationals. Beijing has voiced frustration on multiple occasions at the slow pace of its flagship China Pakistan Economic Corridor project. Under new Prime Minister **Shehbaz Sharif**, Pakistan has also been trying to rekindle ties with the **US**, with some success – including Washington's greenlighting of a US\$450 million package to maintain Pakistan's F-16 fleet. Whilst foibles in China-Pakistan ties should not be exaggerated, Pakistan is not yet the Chinese client state that it is sometimes portrayed as.

Japan lags in cloud computing uptake

Low cloud uptake just one example of the country's stalled digitisation push

Japan has long been regarded as lagging behind other developed nations in its digitisation efforts. Illustrative examples abound. Last year, Yamagata Bank had more than 1,000 customers using floppy disks to transfer employee salary data. The delivery of COVID-19 subsidies in 2020 was temporarily suspended as a result of local governments being required to use four separate data systems.

At a holistic level, one of the largest factors hindering Japan's digitisation is its [lack](#) of investment in cloud technology. Japan ranks just 28th globally in terms of cloud usage, with only 31 percent of companies using cloud solutions. The [data](#) is clear in showing that the most digitally competitive nations such as the **US**, **Finland** and **Norway** have high rates of cloud penetration.

Instead of cloud solutions, Japanese companies have historically preferred on-site proprietary computing systems. However, these systems are expensive to run, comprising up to 76 percent of all IT budgets. In 2021, cloud computing investment accounted for just 4 percent of all Japanese IT spending, compared to 12 percent in North America.

Government efforts, exemplified by the [establishment](#) of the Digital Agency in 2021, are slowly bearing fruit. Across 2019-2022, the cloud market increased by approximately 86 percent. Still, Japan has a long way to go in terms of catching up to Western and East Asian competitors.