

Dragoman Digest

World set to cross 1.5 degree warming threshold in less than a decade

New report forecasts a challenging road ahead to limit warming

At COP27 last week, the international community [recommitted](#) to the Paris Agreement's goal to limit warming to 1.5 degrees. Recent [analysis](#) from the Global Carbon Project – a global research coalition – found the world has 380 gigatonnes (Gt) of carbon dioxide remaining in its 1.5 degree 'carbon budget.' At current emissions levels, this budget will be exhausted in nine years. This means that the world needs to curb its total emissions by approximately 1.4Gt per year, from a 2020 baseline, to have a 50 percent chance of avoiding more than 1.5 degrees of warming.

Achieving such steep emissions reductions will require a massive economic adjustment globally. Despite close to 90 percent of global emissions being covered by a net zero target, and clear bright spots in renewable energy installation rates across the world, emissions are still rising. This year, global fossil fuel related CO2 emissions are expected to rise by nearly [1 percent](#) to 36.6 billion tonnes – the highest ever emissions total. Emissions are forecast to rise by 6 percent in **India** this year. Rising emissions in developing countries will impede overall progress. Innovative international policy mechanisms – such as **Indonesia's** Just Energy Transition [Partnership](#), – are a step in the right direction. Via the JETP, co-led with **Japan** and **Washington**, the G7 has promised at least US\$20 billion in funding to help Indonesia to accelerate its transition to net zero by up to a decade. Global policy settings will have to change drastically if there is to be even a remote chance of keeping the 1.5 degree pathway alive.

MbS' visit to South Korea results in spate of deals

Agreements include investment in Korean oil refinery and Neom

Saudi Arabia and **South Korea** [signed](#) US\$29 billion worth of agreements during Crown Prince **Mohammed bin Salman's** (MbS) first visit to the country since 2019. Trade between the two countries has risen to over US\$125 billion in the last five years. During the visit, South Korean companies signed 26 memorandums of understanding with the Saudi government and companies. Most of the agreements include investment in infrastructure for Saudi's megacity Neom, which is currently under construction. Among these is a US\$6.5 billion hydrogen and ammonia plant planned to be built between 2025 and 2029. Saudi Aramco, which owns South Korean oil refiner S-Oil, also announced a new US\$7 billion oil refinery in the south of the country.

The visit can be read as an attempt by MbS to drum up support for key parts of his future vision for Saudi. Investing in refining and petrochemical facilities is part of Saudi's [strategy](#) to lock in future demand for its crude oil. Gaining the investment of established Korean companies like Samsung is also a way to further substantiate Neom.

The naysayers contend that both of these strategic goals face headwinds. Oil demand is predicted to peak no later than 2040 – the old "[peak oil](#)" argument, with some forecasting that the peak may have already been reached. Neom has been [beset](#) by delays and criticised for being unachievable and lacking a strong business case. Such scepticism is a face off with the Kingdom's confidence and ambition and massive cashflows.

EU companies pivot to the US

Policy certainty and incentives have made the US a more attractive investment destination

Subsidies offered by the **US'** Inflation Reduction Act (IRA), heavy-handed government intervention to address the European gas crisis and high energy prices are encouraging **EU** businesses to [reassess](#) capital allocation plans. One of Europe's largest battery companies,

Sweden's Northvolt, and one of its largest energy companies, **Spain's** Iberdrola, are looking to expand their US footprint. Iberdrola plans to invest [US\\$12](#) billion in renewable energy generation and transmission in the US. Northvolt aims to expand its production bases in the US. Under the IRA, Northvolt may access \$600-\$800 million in subsidies to build a US battery cell manufacturing factory, compared to US\$159 million worth of incentives in **Germany**.

The EU is concerned that such expansive subsidies and tax credits are creating an unfair playing field. Germany's Minister for Economic Affairs Richard Habeck accused the US of "hoovering up investments from Europe". The EU argues that Washington is in breach of World Trade Organisation (WTO) rules, particularly its requirement for cars to be [assembled](#) in North America to be fully eligible for tax credits that will widen next year to include inputs to EV batteries. The EU has asked Washington to [remove](#) what it says are discriminatory content requirements. **South Korea** and **Japan** have also expressed concerns. Tokyo is [considering](#) filing its own WTO complaint. Adjusting the IRA to placate strategic allies will be no easy feat, especially with the Democrats no longer holding a majority in Congress.

Vietnam's chip industry slowly gains ground

US\$850 million Samsung facility among recent investments

Attempts to grow **Vietnam's** semiconductor industry since the 1970s yielded little success. Incentives provided by Hanoi are slowly changing this. Exempting high-tech firms from rent and taxes, including income and sales tax are attracting international manufacturers. This has brought investment to most parts of the chip supply chain including design, fabrication and assembly. In 2021, Intel invested US\$475 million to expand its assembly facilities. Samsung is [spending](#) US\$850 million to establish a manufacturing facility for chip parts in northern Vietnam, adding to Samsung's extensive home appliance and smartphone manufacturing facilities in Vietnam.

Major investments by established companies such as Intel and Samsung are undoubtedly a positive development. However, Vietnam will face stiff competition from established players like the **US**, **China** and **South Korea**, which are [providing](#) tens if not hundreds of billions in chip subsidies. Countries like **India** are also looking to develop indigenous chip industries.

Alliance of Hope's Anwar Ibrahim named 10th Prime Minister of Malaysia

After days of deliberation, Ibrahim formed a coalition

In a major shakeup of **Malaysia's** politics, last Saturday's election produced the country's first ever hung parliament. The UMNO-managed National Front, led by former Prime Minister Ismail Sabri Yaakob, won just [12 percent](#) of the 222 seats in parliament, down from 21 percent at the last election. UMNO has been marred by its former leader Najib Razak's embroilment in the 1DB scandal. Razak has since been jailed. Opposition leader Anwar Ibrahim's Alliance of Hope scraped together 30 seats. The PAS, an Islamist party in the National Alliance, appeared to scoop up the ethnic Malay vote from UMNO, gaining 31 seats. In another surprise development, two-time Prime Minister Mahathir Mohamad lost his seat – his first electoral defeat in [53 years](#).

The election results presage more uncertainty for a country that has had three different leaders across the past three years. On [Thursday](#), following pressure from the King, the UMNO-led coalition agreed to support Anwar Ibrahim as the next prime minister and take part in a unity government. Malaysia's King, Al-Sultan Abdullah Sultan Ahmad Shah, has subsequently sworn Ibrahim in as Prime Minister. How stable this union will be given past animosities between Anwar and UMNO's pro-Malay counterparts remains to be seen.