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India earmarks US$2.4 billion for green hydrogen

India hopes to rival US, EU and China

This month, **India** approved a US$2.4 billion incentives package for green hydrogen. Most of the funds are earmarked for electrolyser manufacturing. Electrolysers are a key component needed to produce green hydrogen from electricity. To drive demand, India plans to mandate usage in heavy industry, including fertiliser production and oil refining. India seeks to become a global hub for green hydrogen production and exports. By 2030, it aims to produce 5 million tonnes of green hydrogen and bring down the cost of production to US$1/kg, from around US$5-6/kg today, aiming for 10 percent of global demand.

Other economies – mainly the **US**, **EU** and **China** – have a clear start. Washington's flagship *Inflation Reduction Act* contains a suite of incentives, including up to US$3/kg in tax credits for green hydrogen produced, sold or used after 2022. China has a fast-growing range of projects and already perhaps 100 would-be electrolyser manufacturers. It has 200MW of green hydrogen electrolysis capacity, with 1.9GW of projects under construction and another 8.5GW of projects in the pipeline scheduled to begin construction in the near future. The US has less than 20MW.

India has some notable advantages, including a potential abundance of low-cost renewable energy. In 2022FY, India installed over 15GW of renewables, lifting total installed capacity to 166GW (as at November 2022) against an ambitious target of 500GW by 2030. Tata and Reliance Industries plan to invest billions in the next decade to build a hydrogen ecosystem.

Japan signals major change to defence strategy

New posture comes after decades-long pacifist strategy

Earlier this month, **Japan** signed two significant military pacts with the **US** and the **UK**. The landmark deals signal Japan's more assertive approach to defence. Tokyo and Washington agreed to expand bilateral cooperation and bolster Japan's military capabilities. Japan will purchase a suite of long-range counter-strike weapons, including up to 500 US-made Tomahawk cruise missiles. Also last week, Japan and the UK signed a 'Reciprocal Access Agreement (RAA)' which will allow the signatories to deploy forces in one another's countries. The UK is the first **European** country to have such an agreement with Japan. **Australia** signed an RAA in 2022. The agreements aim to counter **China's** military aggression, which Japan sees as the "greatest strategic challenge" in the Indo-Pacific region and beyond.

In its first national security strategy in nearly a decade, Japan outlined its intention to play a more significant role in regional security. Over the next five years, Japan will spend ¥43 trillion (US$331 billion), a 57 percent increase on current defense spending levels. The largest proportion of the spending will be on ammunition stockpiles and fuel tanks to bolster its capabilities in a protracted conflict. The increase this year will be largely funded by budget savings of ¥4 trillion (US$30 billion) although questions remain about how the broader package will be funded, given Prime Minister **Fumio Kishida** has ruled out raising income taxes on individuals or issuing government bonds.

Egypt promises to roll back state influence in the economy

It remains to be seen whether Sisi will challenge his political support base

Amid a deepening currency crisis and rampant inflation, **Egypt** earlier this month agreed to a raft of reforms in return for a US$3 billion loan from the International Monetary Fund. The most striking is a commitment – endorsed by President **Abdel-Fattah al-Sisi** – to reduce the "state's footprint" in the economy. Since a 2013 military coup brought Sisi to power, he has relied on the military to drive growth. It now controls hundreds of infrastructure projects and has been encouraged to expand its footprint across a slew of sectors, from cement to media. This has had the effect of crowding out the private sector and deterring foreign investment.

Under the agreement, state-owned companies, including military companies and joint ventures with public enterprises, are defined as being state-owned. Within three years, the state will be required to withdraw from 79 sectors, including construction and livestock, and reduce its footprint in 45 others. Income tax exemptions will end and all enterprises will be required to publish "comprehensive" annual reports.

While the agreement promises far-reaching economic restructuring, doubts remain. It still contains what appear to be loopholes. For example, Sisi will retain control of the country's sovereign wealth fund. The government can also "clarify conditions" under which the state can award itself contracts. Previous promises for reform have not resulted in action and are likely to face opposition from vested interests. Whether Sisi can make good on his promise to end Egypt's state-driven growth model will bear on the economy's revival.

New solar factory in Vietnam to exclusively supply US market

Tariff threat may slow renewable installations in the US

In January, **Chinese** solar manufacturer Trina Solar announced plans to build a 6.5 GW silicon wafer factory in **Vietnam** to exclusively serve **US** solar PV manufacturers. It will be operational by mid-2023. The move comes after the US Department of Commerce ruled in December that several Chinese solar companies – including Trina Solar – had been bypassing US tariffs on China by rerouting components through Vietnam, **Malaysia**, **Thailand** and **Cambodia**. If the preliminary findings are confirmed, company-specific tariffs will be applied in June 2024 after the expiration of President **Biden's** two-year tariff waiver on solar modules manufactured in Southeast Asia. This would leave Trina Solar subject to a 254 percent import tariff. A final decision is expected in May.

Trina Solar will be hoping that either it can avoid the tariffs by demonstrating compliance, or that the two-year tariff exemption is extended again by Biden. Washington is facing pressure from US project developers to delay the imposition of tariffs. They say it is not enough time to establish separate manufacturing supply chains to meet demand. The US is facing a delicate balancing act in reviving its domestic supply chains and achieving its ambitious renewable goals.

Pakistan set to receive US$10 billion loan from China to revamp railway

Concerns raised over the country's ability to repay its excessive levels of foreign debt

Late last year, **Pakistan**'s Prime Minister **Shebaz Sharif** and **China's** President **Xi Jinping** agreed a US$10 billion loan to overhaul Pakistan's Main Line 1 (ML1) railway. The project involves upgrading a 1,700km railway which links the southern port city of Karachi, with Peshawar on the Afghani-Pakistani border, via the country's capital, Islamabad. The project is expected to take nine years to complete. Works will begin in March. The ML1 is part of the

US$62 billion China-Pakistan Economic Corridor (CPEC), one of Beijing's flagship Belt and Road investments.

Critics say the ML1 loan will only exacerbate the country's economic woes. Pakistan currently owes around US$130 billion to lenders including the World Bank and China. Its debt-to-GDP ratio is nearly 75 percent, and its foreign reserves are down to under US$5 billion. Recent floods have only deepened the country's economic crisis and Islamabad's unwillingness to comply with International Monetary Fund bailout conditions is delaying a US$1.1 billion loan. Pakistan's dire finances may ultimately drive China – which has been tightening the screws on its overseas lending – to reconsider the size of the loan.