

# Dragoman Digest

## **New US solar installations fall amid Xinjiang forced labour import restrictions**

*Decreased solar deployment is forecast to continue and potentially only worsen as tariffs are implemented*

US solar companies have [struggled](#) to import polysilicon, a key raw material used to manufacture solar panels, due to the effect of the Uyghur Forced Labour Prevention Act (UFLPA). Domestic solar installations fell by 23 percent in 2022. Signed into law in December 2021, the UFLPA bans the import of goods made wholly or in part with forced labour in Xinjiang. China's westernmost region plays a dominant role in the global solar supply chain, producing around 45 percent of the world's polysilicon.

The US is doubling down on restrictions on Chinese solar panel manufacturers as it seeks to promote domestic alternatives. In December 2022, the US announced it would [impose](#) new duties on solar components produced in **Malaysia, Thailand, Vietnam, and Cambodia**. Southeast Asia has become a major offshoring destination for Chinese companies looking to circumvent the Obama administration's anti-dumping duties imposed in 2012. Passed in August, the US' Inflation Reduction Act (IRA) provides significant incentives for domestic solar manufacturing. Several European and American companies, First Solar, REC Silicon and SPI ENERGY, have announced new US solar panel manufacturing investments. However, it is unlikely that this new manufacturing capacity will be enough to compensate for the expected import shortfall, placing sand in the gears of the US' renewables buildout.

## **Japan adds flesh to the bone of major nuclear policy reversal**

*Local government opposition and the practical difficulties of reversing a decade of sectoral neglect are major obstacles*

Late last month, **Japan** [announced](#) plans to allow for the construction of next-generation light water nuclear reactors and the extension of the 60-year lifespan of existing reactors. Tokyo is aiming for 20 to 22 percent of its energy mix to be nuclear by 2030. This will require 30 nuclear facilities to be in operation, up from [nine](#) currently. The announcements come after Tokyo first flagged the major policy shift in August last year.

Tokyo's policy pivot is a reversal from pledges made in the aftermath of Fukushima in 2011 to completely phase out the use of nuclear by 2030. The exigencies of Japan's net zero and interim emissions targets are the major driving forces behind the shift. Challenges abound. 19 of the facilities slated for re-opening face major obstacles to resuming operations, with three facing particularly entrenched opposition from relevant local governments. There are also more practical constraints. Following the Fukushima disaster, more than 20 manufacturers and around 45 percent of manufacturing engineers [exited](#) the industry. Despite these difficulties, Japan has no obvious affordable pathway to net zero without nuclear.

## Chinese cities move swiftly to loosen homebuying restrictions

*Policy shift designed to stimulate demand in the country's ailing property market*

Major cities across **China** have gone to unprecedented lengths to ease homebuying policies, a tacit recognition of the failure to arrest a precipitous decline in property demand. In late December, Dongguan, a major city in Guangdong, and Chinese megacity Chongqing took the unprecedented step of removing almost all restrictions on home purchases.

In 2022, over 300 Chinese cities took various measures to relax restrictions on home purchases and encourage demand. These included lowering down payment requirements and offering sizeable tax benefits and subsidies for housing purchases. Even so, national home sales fell sharply across 2022. China's top 100 developers ended the year with US\$1.1 trillion in sales, down 41 percent from the previous year.

China's construction and property sectors were central to GDP growth over more than two decades. While Beijing had flagged concerns over the build-up of debt, especially by local government, little effective action occurred until 2021. Unwinding the bubble, China's authorities have triggered inevitable failure of very large, heavily over-gearred developers. The sector's notorious excess construction, inverted mortgage process (buyers paid before units were built) and dependency on the common purpose with income-strapped local authorities all came unstuck. Just as these sectors had underpinned GDP growth, withdrawal weighs heavily across the economy.

Local governments have good reason to be anxious. The downturn in housing sales across China reduces local government budgets. Land sales accounted for 41 percent of local government revenue in 2021. Released in November, China's property rescue [package](#) provides liquidity relief for qualified cash-strapped developers. But it offers limited demand side support. Local governments have had little choice but to take desperate measures, which have included cuts to local governments salaries, pensions and in some cases industrial subsidies for inputs such as energy.

## Japan outlines priority items for economic security agenda

*Tokyo aims to incentivise manufacturing of core strategic items outside of China*

Last month, **Japan** [released](#) a list of “strategically critical” items, classified as such under the rubric of Tokyo’s economic security strategy. Under the strategy, Japanese companies which produce, stockpile, or establish alternative supply chains for these items will be eligible for incentives including loans and subsidies. Rare earths, batteries semiconductors, fertilisers, and six other products are covered.

**China** dominates manufacturing in many of the newly classified items. 85 percent of rare earths, for example, are [processed](#) in China. Rare earths are crucial for the manufacturing of batteries, semiconductors, and other products critical to Japan’s economy. Japan has budgeted for at least US\$7.8 billion in incentives for eligible companies. Among those who have acted so far, Hitachi is [developing](#) electric vehicle motors which use fewer rare earths sourced from China.

## More details emerge of Apple’s “China +2” diversification strategy

*Attempt to establish alternative production hubs comes amid rising Sino-US tensions*

After nearly two years of preparation, Apple is set to begin [producing](#) MacBooks in **Vietnam** as early as May. Apple’s manufacturing partner Foxconn currently makes between 20 to 24 million MacBooks in the **Chinese** cities of Chengdu and Shanghai. Manufacturing in Vietnam will mark the first time that MacBooks will be made outside China. Apple will shift some manufacture of AirPods, iPads and Apple Watches to Vietnam. iPhones, including the latest iPhone 14, will be made in **India**. China’s production share for core Apple products is [expected](#) to fall from around 95 percent to 80 percent or less by 2025.

### Share of Apple products produced in China



Source: JPMorgan Chase & Co

Apple’s ‘China+2’ production strategy may reflect **US-China** tensions, including anticipated sweeping sanctions in any conflict over **Taiwan**. China’s chaotic handling of COVID-19 has underscored the risks of concentrated production. The shift to India and Vietnam is also a testament to these countries’ advantages, including lower wages and increasing technological sophistication. Still, China offers huge advantages to Apple and its suppliers, not the least being huge pools of STEM workers and world-class logistics and infrastructure. Apple’s diversification is more of a strategic adjustment than decoupling.