

Dragoman Digest

Türkiye posts record-high exports in 2022

Recent stimulus and unconventional monetary policy cloud the country's longer-term economic outlook

Record high exports in 2022 have been hailed by Türkiye's President **Erdoğan** as evidence of the Government's economic credentials and ability to "manage crises." Last year, Türkiye's exports [reached](#) a record high US\$254 billion, due largely to higher trading volumes with **Russia** and the 30 percent fall in the value of the Turkish lira against the US dollar. Türkiye appears to have partially filled the export gap opened up by the West's sanctions on Moscow. In the first half of last year, exports to Russia reached an [8 year high](#) of US\$2.9 billion. In December alone, exports to Russia more than doubled to US\$1.3 billion.

Fundamental challenges remain. Erdoğan is committed to unorthodox monetary policy, making further [capital flight](#) and currency devaluation likely. The benefit of recent economic stimulus, including the doubling of the minimum wage to US\$455 per month, is likely to be muted by rampant inflation. An unknown factor is the effect of Iran's 70 percent cut to gas exports ahead of [peak winter demand](#). The pipeline has been out for nearly a week. Iran is Türkiye's second largest gas supplier after Russia. How and when these factors play out will influence results of the presidential poll in June.

Global energy giants plan major investments in Vietnam's offshore wind industry

Nascent policy and regulatory framework may be obstacles

A slew of global renewable energy developers, including the world's largest offshore wind company Ørsted, are [weighing up](#) major investments in **Vietnam's** offshore wind industry. In April last year, **Japan's** Renova signed a memorandum of understanding with state-owned PetroVietnam to co-develop a 2GW offshore wind project. They have not announced a timeline or location, although southern Vietnam is an attractive proposition given high wind speeds and proximity to major demand centres. **Denmark's** Ørsted and Vietnam's T&T Group plan to invest around US\$30 billion over 20 years to develop up to 10GW of offshore wind. They are yet to announce specific projects. Japan's Sumitomo plans to develop a 1GW capacity windfarm off the southern coast of Vietnam by 2030.

Offshore wind is a central focus of Vietnam's policy agenda. In its draft Power Development Plan (PDP8), the country's primary-energy planning tool, the Government plans to install 7GW of offshore wind capacity by 2030 and 87GW by 2050. There are notable barriers to achieving its targets. Vietnam has a complex and lengthy permitting process, requiring coordination with nine national and provincial level agencies. A lack of onshore grid connection points and transmission is another impediment. While there are some signs that policymakers are focused on resolving these challenges (the Government is considering the design of large-scale reverse auctions, for example), substantial reform will be required to deliver on its ambitions.

The Philippines propose US\$4.9 billion sovereign wealth fund

There are concerns that the fund will not be at arm's length from Manila

In November 2022, the **Philippines** [introduced](#) a bill to establish a US\$4.9 billion sovereign wealth fund, known as the Maharlika Investments Fund (MIF). The MIF aims to support President **Marcos'** policy priorities, including infrastructure and rural development. The bill passed the House of Representatives on December 15. It will be debated in the Senate throughout the next two months.

Under the initial draft legislation, state-owned superannuation funds, government-owned lenders and the Government Service Insurance System and the Social Security System would initially invest US\$4.54 billion. In face of criticism, the bill was revived to remove the investment from superannuation funds. Eligible investments include domestic and foreign corporate bonds, foreign currencies, equities, fixed-income instruments, loans and guarantees, joint ventures, infrastructure projects and real estate. Investments related to war and involving "environmental degradation" – which has not yet been clearly defined – are prohibited.

There are some reservations about the MIF's proposed governance, given the President will act as chair of the fund and retain broad discretion over investment decisions. The five so-called 'independent' directors of the MIF will also be appointed by a government-dominated advisory board.

The US and EU consider imposing tariffs on imports of carbon-intensive aluminium and steel

Whether the measure would be WTO compliant and compatible with the EU's newly introduced CBAM is unclear

The **US** and **EU** are [considering](#) imposing tariffs on imports of emissions-intensive steel and aluminium. Their aim is to target emissions by imposing a tariff on products above a certain emissions threshold. While details are scant, the measure is reportedly aimed at **China**, which is the world's largest producer of steel and aluminium. No tariff rate, or suite of tariff rates, has been agreed. The US wants the agreement to be legally binding. Several other economies, including **Canada**, the **UK** and **Japan** have expressed interest in joining the discussions.

Several aspects of the mechanism will need to be resolved, including compliance with World Trade Organisation (WTO) rules and how it would work with the EU's carbon border adjustment mechanism. An approach which included the world's leading economies – and resolved potential duplication – would represent a turning point in global carbon emissions management.

Some Japanese manufacturers hold out against China decoupling trend

China attracts Japanese investment despite COVID disruption and economic woes

Despite calls from Tokyo to shift production out of **China**, some Japanese companies – such as Panasonic – are doubling down. Under its April 2020 economic recovery package, **Japan** [set aside](#) US\$1.84 billion to incentivise its manufacturers to shift production out of China. Last week, Panasonic [announced](#) plans to invest nearly US\$375 million to boost production over the next three years. The company intends to build its first new Chinese appliance factory in 19 years.

While Panasonic's investment has been held up as evidence of 'bucking the trend' of Japanese manufacturers reducing their exposure to China, strategic and sensitive sectors have seen divestment. In face of Washington's increasing chip export controls, Japanese chip equipment supplier Ferrotec is [considering](#) relocating manufacturing to Japan, **Malaysia**, and the **US**. Japanese chip maker Rohm is [building](#) a semiconductor manufacturing facility in Malaysia, expected to be operational by August 2023. Japan finds itself in a delicate balancing act between consolidating its China-dependency on non-sensitive goods and incentivising strategic sectors to re-shore supply chains.