Dragoman Digest

Beijing dials back restrictions on property sector

The policy adjustments are consistent with the overriding imperative to promote economic growth

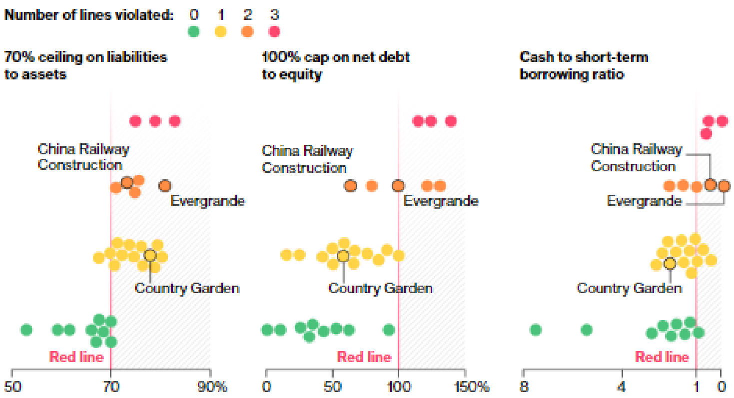
Beijing plans to offer more [relief]() to its ailing property sector. Policies designed to revive the market, including a bond issuance program and increased re-lending quotas have proved insufficient to stabilise the sector. This comes on top of a litany of local government measures to try and revive demand. According to a report by the China Index Academy, the 100 largest property developers in China recorded US$1.1 trillion in sales in December – down around 41 percent from a year before.

Authorities have recently announced plans to ease restrictions on developer borrowing, representing a dialling back of the ["three red lines"]() (see table below) policy for so-called "quality" developers. The policy sought to reduce developers' leverage and lower risk in the financial sector by imposing strict debt and cash-flow targets on firms. Under the proposal, restrictions on debt financing would be eased even if selected developers exceeded some red-line thresholds.

While the moves sparked a rally in property stocks, the slump in the housing sector may be more difficult to address. So far, the stabilising measures have not improved the weak sales and prices for property. Beijing appears to be seeking to avoid contagion, while remaining clear of the debt excesses that have raised fears of systemic risk.

Between the Lines

Two-thirds of top 30 Chinese developers crossed at least one red line



Sources: China Real Estate Info Corp., Bloomberg-compiled data including companies' filings; data as of June 2021

India's EV industry picks up steam

India well placed to carve out a niche in assembly and component manufacturing

India's attempt to build an electric vehicle (EV) industry is beginning to [take shape](). **China**'s BYD has invested over US$200 million and will expand the production capacity of its e6 assembly plant by a further 50 percent. **Japan**'s Suzuki – India's largest carmaker – [aims]() to invest US$1.2 billion in both EVs and EV batteries. **South Korea**'s Kia will invest US$244 million over four years. Tata, Mahindra and other local companies have already launched Indian-made EVs.

Since 2020, the central government has imposed a 30 percent tariff on imported EVs and 15 percent on components. Local producers receive Production-Linked Incentives, which may be supplemented by state incentives. Uttar Pradesh, for example, offers at least US$183 million for the establishment of battery manufacturing facilities with a capacity of over 1GWh.

India's aim is to develop an integrated EV industry that encompasses battery and component manufacturing as well as assembly. Its vast and relatively inexpensive labour pool and established auto industry means that it is well placed to emerge as an assembly hub. India will face stiff competition in establishing a meaningful foothold in battery manufacturing. China controls 75 percent of global manufacturing capacity and 80 percent of battery material refining capacity. Advanced economies with already established industries including the **US**, **EU**, Japan and South Korea are offering large subsidies.

Resurgence of violence in Israel and Palestine

Composition of new Netanyahu government threatens Israel's stability and relations with Arab neighbours

Tensions between the **Israelis** and **Palestinians** have deepened since Prime Minister Netanyahu was sworn in last December. Last week, seven Israelis were killed by a Palestinian gunman in Jerusalem. 35 Palestinians were killed in January alone. Netanyahu is leading what is widely characterised as the most conservative government in the country's history. The government is a coalition of far-right politicians including National Security Minister Ben-Gvir, who is associated with the Kach movement. In January, Ben-Gvir antagonised Palestinians when he entered the Al-Aqsa Mosque. In recent times, prominent non-Muslim visits to the mosque, Islam's third-holiest site, have precipitated large-scale unrest, including the 2000 Intifada.

Another risk to stability is the allocation of key security portfolios to Ben-Gvir and Bezalel Smotrich of the ultranationalist Religious Zionist Party. As a key condition of the coalition agreement, the duo now notionally control the activities of the Israeli military police in the West Bank. This has effectively fractured Israel's military command, as evidenced when Defence Minister Yoav Galant was forced to overrule Smotrich's objections and proceed with the demolition of an illegal settlement.

As well as threatening the stability of Israel's ruling coalition, the security powers of both men may slow Israel's pursuit of normalisation with **Saudi Arabia** and other Arab states. Saudi recently explicitly reiterated that there will be "no normalisation with Israel without [a] Palestinian state". Saudi is pivotal in that if it normalises relations with Israel, other hold-out states are expected to follow.

Lithium-ion battery prices rise for first time in 12 years

Raw material prices and high inflation rates key causes of increase

After declining for nearly a decade, the price of lithium-ion batteries increased last year by nearly 10 percent to about US$151/kWh. From 2013 to 2021, the cost per kWh of lithium-ion batteries fell by 80 percent from US$688/kWh to US$310/kWh. This has had a pronounced impact on the installed cost of battery storage and electric vehicles (EVs). In 2022, the cost of four-hour battery energy storage systems rose almost 30 percent to US$386/kWh. Meanwhile, automakers Rivian, Tesla and Cadillac all raised the price of their EVs in early 2022. The cost of Tesla's cheapest vehicle rose 23 percent.

Supply bottlenecks and soaring demand were price drivers. In November, the average spot price in Asia for lithium carbonate reached US$80,800 per tonne, a 1,000 per cent hike since the beginning of 2021. Aggressive subsidies are adding to pressures. **Washington**'s flagship *Inflation Reduction Act* alone is set to boost demand for energy storage by almost a quarter. Despite higher costs, according to Bloomberg New Energy Finance, installed capacity is expected to almost double in 2022, adding roughly 28GW/69GWh.

China weighs up export bans on critical solar components

Embargo on world-leading technology aims to slow progress of competitors

China is considering imposing an export ban on critical solar PV components, including black silicon, ingots and wafers. The three components form pieces of silicon used in solar panels. If imposed, the ban will require manufacturers to obtain technology export licenses from provincial government departments. While details are scant, China is clearly looking to maintain its dominance and slow the development of alternative manufacturing hubs. China currently controls 80 percent of global solar supply chain capacity and 98 percent of wafer production. The **US**, **EU** and **India** are attempting to build up their own manufacturing industries. Under the US' *Inflation Reduction Act*, for example, manufacturers are offered tax credits of US$12 per square metre of wafers.

China's wafer technology has been a key part of its dominance. It has consistently been able to produce wafers at lower costs than its international competitors. Without access to newer technology, other countries may find it difficult to be cost-competitive.

While the measure may have an impact on the cultivation of alternative manufacturing bases (including by Chinese companies looking to circumvent US tariffs), it is unlikely to drastically disrupt the global solar rollout. The mooted ban is a reminder to the US and its allies that two can play at the export control game.