

Dragoman Digest

Japan and South Korea renew ties after first prime ministerial visit in 12 years

Rapprochement paves the way for closer trilateral cooperation with the US in the Indo-Pacific

Last week, **Japanese** Prime Minister **Fumio Kushida** and **South Korean** President **Yoon Suk Yeol** [agreed](#) to reassert ties after reaching an agreement managing issues relating to Japan's use of forced labour during its occupation of Korea. The agreement will see Korean and Japanese companies make voluntary contributions to a fund for victims. In exchange, South Korea will not seize Japanese assets in Korea as ordered by Korean [courts](#). The forced labour deal was accompanied by agreements on reciprocal leaders' visits and the revival of intelligence sharing. Japan also agreed to lift export restrictions on semiconductor materials, issued in response to the South Korean court's [ruling](#) on Japanese company Nippon Steel in 2018.

The warming in relations bodes well for greater trilateral coordination with the **US** in the region. Concrete points include the deepening of intelligence sharing and military exercises – which have all resumed under Yoon – and a US proposal for a [trilateral dialogue](#) on extended deterrence. Another potential area for cooperation is the Quad, especially given Yoon's persistent statements of intent to either join or cooperate with the strategic grouping.

However, obstacles remain. South Korea will be wary of antagonising China, particularly after **Beijing's** economic [retaliation](#) in response to Seoul's deployment of the THAAD missile defence system in 2017. Yoon has arguably been more bark than bite when it comes to taking a tougher line on China. Domestic politics may also challenge the durability of the Japan-Korea agreement. The opposition Democratic Party of Korea (DPK) has campaigned fiercely against reconciliation with Japan, portraying the agreement as a national humiliation. The DPK has previously reneged on agreements concerning historical matters reached by conservative predecessors with Japan. Yoon, who has invested huge amounts of political capital into the agreement, will need to tread carefully in managing public opinion and Chinese pressure.

Chinese battery giant to lead development of Bolivia's lithium potential

The country is among many targeted in China's global quest for critical minerals

Chinese battery makers are venturing into new jurisdictions to extend their dominance of electric vehicle (EV) battery materials. **Bolivia**, which has large lithium reserves, has been at the centre of Beijing's recent efforts. In January, a consortium led by Chinese battery giant CATL [announced](#) plans to partner with Bolivia's state-owned lithium company, YLB, on mining, refining and processing of lithium. The consortium will invest more than US\$1 billion in mining infrastructure across the Uyuni and Coipasa salt flats in the country's south, aiming to produce 25,000 tonnes of battery-grade lithium carbonate by 2024. Bolivia is expected to produce a total of 40,000 tonnes of lithium carbonate annually by 2025.

Developing Bolivia's lithium presents challenges. Lithium reserves in Bolivia are found in underground brine pools, which require lengthy processes of pumping and evaporating brine to extract lithium. This makes lithium extraction far more costly and complex than in neighbouring **Chile** and **Argentina**. The country's colonial history has also made Bolivian political leaders cautious of international mining companies. Former Bolivian President Evo Morales, for example, re-nationalised mines in [June 2012](#). To navigate these complexities, CATL plans for local production of EV batteries in Bolivia – with the goal of jointly producing lithium batteries by 2025. International mining companies looking to diversify lithium supply chains will be hard pressed to outcompete with CATL in Bolivia.

Auto chips next cab off the rank in China's self-sufficiency push

Self-sufficiency will require substantial investment and may prove disruptive

In a sign that **China** is [ramping up](#) its self-sufficiency drive, Beijing has ordered the country's largest automotive companies to use domestically-made chips. This directive was reportedly first conveyed to top automotive companies at a snap meeting in Shanghai in November.

The policy on auto chips may be particularly disruptive for China's auto sector. Currently, only five percent of automobile semiconductors used by China's car industry are made domestically. Guangzhou Automobile Group, which has begun work on manufacturing chips in-house, imports around 90 percent of its automotive chips. Although it is commonly assumed that money is no object when it comes to China's self-sufficiency push, Beijing appears to have decided not to go ahead on a [US\\$146 billion package](#) for the semiconductor industry. Instead of extra funding, Beijing appears to be prioritising improved bureaucracy to promote better governance, including through restructuring the Ministry of Science and Technology. Given the scandal over misuse of funds by China's highest profile semiconductor champion, Tsinghua Unigroup, Beijing appears to have taken note.

UK to define nuclear as green in bid to attract investment

Recategorisation alone will not be sufficient in catalysing a new nuclear fleet of generators

The **UK** is set to [classify](#) nuclear power as "sustainable" in its green finance taxonomy in an attempt to attract investment and generate a reliable source of power. This will occur in London's Green Taxonomy, which is due to be finalised by the end of this year. The UK government is set to designate £80 million (US\$97 million) in seed funding for Great British Nuclear – a new body looking to revive the UK's nuclear industry and oversee the deployment of 20 to 30 [small modular reactors](#) across the UK. The decision follows a similar move by the **EU** last year to [redefine](#) nuclear projects as "green" investments.

The UK will face several challenges in reviving its nuclear industry. Nuclear plants can cost upwards of US\$20 billion to construct. Widespread delays are another challenge, with the UK's only new nuclear power plant facing at least [18 months](#) of delay. Despite these issues, the case for nuclear power is strengthened by imperatives of the energy transition and the global energy crisis brought on by the war in **Ukraine**. Nuclear power's reliability makes it a useful source of baseload power in grids increasingly dominated by renewables. **Japan**, **South Korea**, the EU and the **US** aim to [revive](#) their respective nuclear industries, while **China** is targeting a buildout.

The EU explores outbound investment controls

The entrenched position of certain influential companies in China may yet water down the proposed measures

The **EU** is looking to control [outbound investments](#) into strategic and sensitive technology areas amid heightened concern over **China**. The 2023 European Commission Work Programme specifically states that the Commission will explore whether "additional tools are necessary in respect of outbound strategic investment controls". The EU trade commissioner Valdis Dombrovskis [recently linked](#) outbound investment controls to prevent efforts to circumvent export controls. This comes amidst **US efforts** to finalise its own outbound investment controls, specifically targeting China.

Any EU Commission proposal will run up against the different EU national interests – represented in the EU Council. European investment in China is highly concentrated. From 2018 to 2021, **German** companies Volkswagen, BMW, Daimler and BASF together contributed a third of EU company investments in China. Efforts by the German Greens to include outbound investment screening in the country's now delayed China strategy has been resisted by German industry and Chancellor **Olaf Scholz**. Similar resistance can also be expected at the EU level, with differing national capabilities coming into play. **Bulgaria**, for example, is yet to screen for inbound investments. The EU's move is a further sign of a transatlantic alignment on China. The EU and US are coalescing – by hastening slowly.