

# Dragoman Digest

## China turns its attention to Ukraine after brokering Saudi-Iran deal

*Hopes raised that Beijing may attempt a similar “breakthrough” with Russia and Ukraine*

Last week, **Saudi Arabia** and **Iran** [announced](#) they will restore diplomatic ties following secret talks brokered by **China**. In a joint [statement](#), Riyadh and Tehran agreed to re-open their respective embassies within two months. Riyadh agreed to tone down its criticism of Iran via Iran International (a Saudi-owned Farsi newspaper), while Iran will limit support to **Yemen’s** Houthis. Beijing brokered the rapprochement, though **Iraq** and **Oman** mediated negotiations between Saudi and Iran over the last two years.

Sharply contrasting with its “wolf warrior” ventures, the Saudi-Iran deal is a high-profile example of China’s efforts to recast itself as an international peacemaker. Aspirations set out in Beijing’s [Global Security Initiative](#) emphasise “indivisible security” – a conceptual interdependence that suits China’s appeal to nonaligned nations.

**Ukraine** is in Beijing’s sights. President **Xi** is expected to talk with President **Putin** and President **Zelensky** in visits next week. China will promote its 12-point peace [proposal](#) to end the war, which acquired a modicum of plausibility after the Saudi-Iran deal.

Regardless of whether anything concrete results from either initiative, China benefits by offering at least the attempt of reconciling entrenched international conflicts.

## France leads development of global biodiversity scheme

*Macron aims to replace France’s 3000 troops in Africa with new green economic credentials*

At the One Forest summit last week, **France and Gabon** agreed to jointly advance the creation of a market for biodiversity spanning Africa, Southeast Asia, and Latin America. They will develop the framework and processes to enable the trading of biodiversity credits. France contributed \$53 million as part of a joint US\$106 million commitment to direct capital into biodiversity. In recognition of the capacity of robust ecosystems to sequester carbon, the aim of the scheme is to finance the conservation and restoration of tropical forests in the Congo Basin, the Amazon and across Southeast Asia. While specifics are yet to be agreed upon, it is understood a biodiversity certificate would be issued for each project, with the bulk of the restoration to be funded by the private sector and NGOs.

Following hot on the heels of a visit to **Angola**, the **Republic of Congo**, and the **Democratic Republic of Congo**, Macron’s announcement signals a shift in France’s Africa policy. Trade, investment, and climate diplomacy will be emphasised over France’s military heritage. Forests in sub-Saharan Africa are [estimated](#) to be 25 percent of the carbon sequestration capacity of all tropical rainforests.

Hurdles remain in establishing a viable scheme. The core issue is establishing systems to measure, verify, and monitor biodiversity outcomes. Credibly assessing a net change in biodiversity requires an ecosystem to be measured against a baseline. In the absence of reliable data and a robust scheme, France’s voluntary market will struggle to attract capital.

## Malaysia re-opens tendering process for 5G infrastructure deal

*The Malaysian government's review of awarded multi-billion tenders has caused jitters among foreign investors*

**Malaysia's** government will officially revisit the US\$2.5 billion Ericsson contract for the construction of its 5G network signed in 2021. **Sweden's** Ericsson has already achieved coverage in 50 percent of populated areas with an aim to reach 80 percent by the end of this year. In justifying its decision, newly elected Prime Minister **Anwar Ibrahim** cited unspecified "competitiveness and transparency" concerns around the bidding process. The review into the Ericsson contract follows Anwar's [pledge](#) in December last year to review a series of multi-billion contracts signed by the previous government of Muhyiddin Yassin – who was last week arrested on corruption charges.

The contract's re-opening is set to amplify local competition between **China** and the West. Huawei has signalled its intention to bid for the contract, while the **EU**, **UK** and **US** have warned Malaysia against reopening the deal. Though genuine efforts to combat corruption are undoubtedly welcome, Malaysia's move has also inevitably raised concerns over the sanctity of existing contracts. Aside from Ericsson, **Australia's** Lynas – which operates the only sizeable rare earths processing facility outside of China – has recently [accused](#) Malaysia of imposing conditions that deviate significantly from the terms of its initial investment. The company must now ensure that its plants do not produce radioactive waste upon the renewal of its contract in July.

## The IRA and CBAM standing in the way of Indonesia's downstream processing and EV ambitions

*Both laws threaten to lock Indonesian EVs, batteries and metals out of the US and EU markets*

Resource nationalism [legislation](#) introduced over the past decade has successfully kickstarted **Indonesia's** downstream nickel and metals processing industry. The most prominent of these measures has been the ban on the export of raw nickel – first instituted across 2014-2017 before being reimposed in early 2020. Since 2014, Indonesia has attracted over US\$30 billion in investment, mostly in pig-iron, ferronickel and steel smelting operations, generating a robust nickel industry – largely powered by coal. Recently, Indonesia has started to leverage its huge nickel resources to attract more sophisticated investments in batteries and electric vehicles (EVs), including Hyundai's new battery cell and EV assembly plant.

Despite Indonesia's initial success, obstacles stand in the way of the country's ambitions to move up the battery and EV value chain. Two items of legislation stand out. **Washington's** *Inflation Reduction Act* (IRA) offers generous tax credits for EVs, but renders ineligible cars made with batteries using minerals sourced outside of the US or its free trade partners. The **EU's** *Carbon Border Adjustment Mechanism* (CBAM), which comes into force in October, requires EU importers to pay the difference between the effective carbon price paid in the country where goods are imported from, and the EU's carbon price. The coal-intensive nature of Indonesia's current industrial base will render its batteries, steel and EVs less attractive to European consumers. Indonesia's investors must now factor the IRA and CBAM into their investment decisions. Indonesia may ultimately have more luck serving as a regional or Asian EV and battery hub, rather than one geared towards Western markets.

## Chinese-style EV battery chemistry makes inroads into US market

*Lower costs may drive further market share growth*

EV manufacturers in the **US** appear to be [embracing](#) lithium iron phosphate (LFP) batteries, which are prevalent in **China**. In 2022, LFP batteries represented nearly 10 percent of US battery capacity, up from zero the year before. LFP batteries – which accounted for about half of the battery capacity of EVs sold in **China** last year – are far cheaper than NMCs, which incorporate nickel, manganese and cobalt alongside lithium. The relatively high density and longer range of nickel-rich batteries have made them the preferred choice for the US' long travel distances and heavy vehicles.

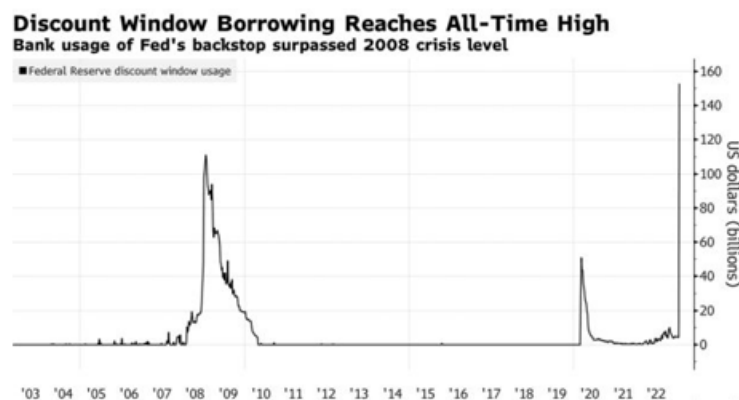
LFP batteries are likely to experience further growth in the US market. Cost concerns are front of mind. Nickel and cobalt prices have increased by around 450 percent to US\$24,200 and US\$34,200 per tonne, respectively, over the past three years. Meanwhile, expiring patents on Chinese LFP chemistries may reduce the cost of LFP batteries.

Around 20 percent of the battery production capacity announced this year is LFP. This includes a mix of start-ups and established players. Our Next Energy will begin making LFP batteries at its new US\$1.6 billion plant in Michigan this month. Ford will open a US\$3.5 billion LFP plant in Michigan in 2026, where it will licence Chinese company CATL's technology. The US' *Inflation Reduction Act* provides startups with subsidies that allow them to compete on a cost basis with established players.

## US banks borrow an unprecedented US\$152.85 billion from Federal Reserve

*Following the SVB and Signature Bank crisis, the move signals a scramble to backstop liquidity*

According to latest data released by the Federal Reserve, **US** banks [borrowed](#) US\$154.85 billion last week from its emergency discount window, which acts as a liquidity source during times of systemic financial stress. The borrowed sum was up by US\$148 billion from the previous week's US\$4.58 billion – breaking the record window lending set during the 2008 global financial crisis at US\$111 billion. Following the failures of Silicon Valley Bank and Signature Bank, the recent action taken by the Fed suggests that it is [implementing](#) extraordinary measures to ensure that banks have adequate liquidity to fulfil all deposit requirements.



Source: Bloomberg