

Dragoman Digest

Chinese battery manufacturer to construct the EU's largest anode factory

Deepens European dependence on Chinese battery manufacturers

Last week, **China's** Putailai (PTL) [announced](#) plans to invest US\$1.3 billion to build a massive anode materials factory in **Sweden** to meet surging European battery demand. The anode is the part of the battery cell which releases electrons. Once built, the facility will be the largest in the **EU**, with an annual capacity by 2025 of 50,000 tons of lithium-ion anode materials, increasing to 100,000 tons in 2027. Swedish battery manufacturer Northvolt AB, which has one Gigafactory, will be its primary customer. PTL is the newest entrant into Sweden, joining **South Korea's** Dongjin Group, **China's** Kedali, and Senior Material.

Sweden's supply of graphite resources (the largest mineral in lithium and nickel batteries), abundant hydropower and the presence of Northvolt are drawcards. Regulations are also pushing Asian battery manufacturers to localise operations in the EU. These include the coming Carbon Border Adjustment Mechanism, requirements for batteries to meet a yet to be determined maximum carbon footprint by 2027 and the EU's target of 90 percent EV battery self-sufficiency by 2030. Manufacturing in Sweden will decrease PTL's carbon footprint by over 90 percent compared to manufacturing in China.

South Korean companies secure reprieve on China chip export controls

Waiver respite for companies with a heavy Chinese manufacturing presence and dependency on the Chinese market

The **US** has [indicated](#) that it will exempt **South Korean** imports of US-made chipmaking equipment to **China** from its export controls. SK Hynix and Samsung will be permitted to import US chipmaking equipment to their Chinese manufacturing plants "for a considerable period of time". South Korean companies were last year granted a one-year waiver which allowed them to continue to import high-tech US semiconductor manufacturing equipment into China. In October 2022, the US imposed its most stringent export controls to date, targeting China's semiconductor industry.

SK Hynix produces around 48 percent of its DRAM chips in China, while Samsung makes almost 40 percent of its NAND chips in the country. DRAM and NAND are both types of memory chips. The reprieve will only be partial if South Korean companies want to make use of US industrial policy. If they are to benefit from the *US CHIPS and Science Act*, recently released stipulations for subsidy beneficiaries place a [US\\$100,000 expenditure limit](#) on investments in advanced chip manufacturing in China. Capacity expansions are capped at 5 percent and 10 percent for older and advanced chips, respectively. The conditions last for ten years from the awarding of a subsidy.

China's Belt and Road Initiative continues to avoid large infrastructure projects

Data centres and 5G are in focus

Wary of tightening credit conditions at home and abroad, **China's** flagship *Belt and Road Initiative* (BRI) is [favouring](#) less capital-intensive projects. The number of new overseas construction projects in BRI economies has fallen by 32 percent from a peak in 2016 of over 8,000 to about 5,500 in 2022. Corruption and debt concerns among several BRI partner countries, including **Kazakhstan**, **Bolivia**, **Costa Rica**, **Sudan**, **Ethiopia**, **Zambia**, and **Cameroon**, have led to suspended or cancelled projects totalling US\$5.8 billion.

Growth/decline of BRI engagement in different sectors (2016-2022)

	2016	2017	2018	2019	2020	2021	2022
Agriculture	121%	-57%	5%	23%	31%	-83%	3%
Chemicals	51%	124%	-72%	192%	-11%	17%	-53%
Energy	-25%	-3%	-11%	9%	-34%	-4%	-4%
Entertainment	710%	173%	-71%	100%	-88%	-100%	
Finance	-69%	64%	-57%	-79%	-22%	-44%	3,450%
Health	-13%	345%	-47%	-45%	-50%	362%	112%
Logistics	114%	193%	-89%	-80%	630%	35%	-100%
Real estate	-17%	51%	-15%	5%	-60%	28%	-42%
Technology	-58%	15%	25%	41%	-63%	-88%	7,536%
Transport	-43%	7%	103%	-30%	-43%	-1%	-23%
Tourism	451%	13%	-89%	26%	-100%		
Utilities	41%	-44%	-31%	150%	-61%	169%	-84%
Other	-2%	156%	9%	-59%	-55%	36%	81%
Mining and metals	-5%	1%	185%	-47%	-48%	89%	-27%

Source: Green Finance & Development Center, FISF Fudan

BRI investment in technology increased by a multiple of 70 times last year. IT and the telecommunication sectors surged to US\$17.6 billion in 2022 – marking a sixfold increase since 2013. Huawei has been a big winner, securing over 70 deals in urban surveillance, data centres, cloud infrastructure and e-government technology in over 41 countries – including **Kenya, Egypt, Ivory Coast, Cameroon, Ghana, Cape Verde, and Algeria**. Senegal's new government [data centre](#) will be supported by Huawei servers.

Australia changes tax regime for large gas producers

Changes to the PRRT are modest and a reprieve for an industry in the political crosshairs

The **Australian** Government has overhauled its tax regime for offshore LNG producers, known as the Petroleum Resource Rent Tax (PRRT). Australia is among the largest gas exporters globally. Canberra will introduce a cap on tax deductions from 1 July, limiting producer income that can be offset by deductions to 90 per cent, which will increase tax by \$2.4 billion over the next four years.

The tax change is a revenue raising measure. The government has also introduced measures in response to short supply and higher domestic gas prices. These measures are aimed at the retail electoral constituency and are not likely to improve the domestic supply. These include a \$12/GJ price cap on new domestic wholesale gas contracts by east coast producers, a provision to ensure “reasonable pricing” for relevant domestic wholesale gas contracts, a beefed-up Australian Domestic Gas Security Mechanism, and enhanced emissions reduction measures under the Emissions Safeguard Mechanism.

Singapore walks the tightrope between the US and China

Balance of ties has been successful until now

A “shrimp” [surrounded](#) by “big fish”, **Singapore** has been adroit in managing its relations with **China** and Western powers. This balancing act was on display at the recent Boao Forum, where Singapore's Prime Minister **Lee Hsien Loong** publicly highlighted the positive role played by **US** defence in Asia. It is difficult to imagine many – if any – other Southeast Asian leaders making such remarks. This follows an announcement in February that Singapore plans to buy an additional eight F-35B fighter jets from the US, bringing its total stock to 12.

Singapore has allowed the US military to increase its presence in the country by 12 percent since 2018 whilst continuing to hold significant low key [military exercises](#) with **Taiwan**.

At the same time, Singapore has deepened relations with China. Singapore this year held its first military exercises with China since 2021, coming after the two sides agreed to upgrade military ties in 2019. Singapore and China in April elevated ties to an “all-round high-quality future-oriented partnership”, one of the highest levels in Chinese foreign policy nomenclature. The city-state has positioned itself to reap a windfall from an influx of wealthy Chinese citizens looking to move assets out of China by, among other things, hiking the tax on foreign-owned housing.