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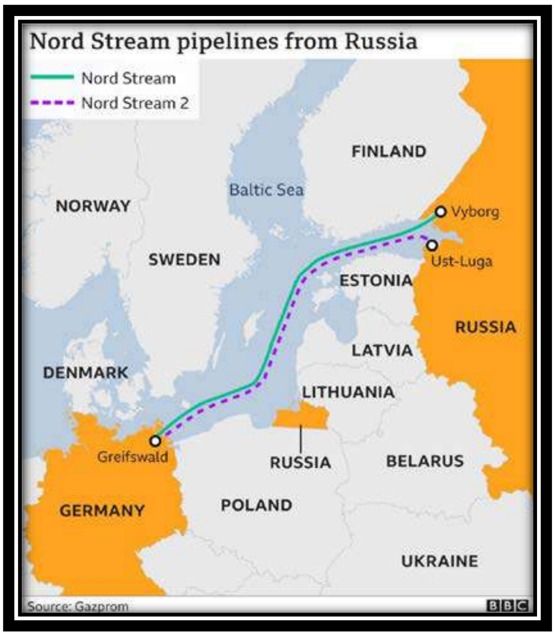
European energy crisis and geopolitics of Nord Stream 2 gas pipeline

Natural gas prices have soared in recent months and with them Europeans' heating and electricity bills. Speaking at an energy conference in Moscow on 13 Oct 21, President Vladimir V. Putin drew a connection between resolving Europe's natural gas crisis and gaining regulatory approval for the Russian-backed, politically fraught Nord Stream 2 pipeline. Russia, the largest supplier of gas to Europe, Russia, one of Europe's biggest natural gas providers, has been accused of intentionally withholding supplies to pressurise the EU into recognising the Nord Stream 2 pipeline. While Russian energy company Gazprom has completed the construction work, the pipeline awaits regulatory approval from Germany for the commencement of gas flow.

Nord Stream 2 is the latest of several undersea pipes laid by Russia in a decade-long strategy to replace pipelines running through former Soviet and Eastern Bloc nations by going around them, through the Black and Baltic Seas. Built by Gazprom, a 1,223 km undersea pipeline links Ust-Luga near St Petersburg to Greifswald on the German north coast. The pipeline runs parallel to an existing functional pipeline called Nord Stream 1, which was made operational in 2011. Both pipelines are designed to deliver gas to Europe bypassing Ukraine. The combined capacity of North Stream 1 & 2 will be 110 billion cubic metres (bcm) of gas per annum. The completion of the Nord Stream 2 Pipeline, announced by Russia in September 2021, has led to a raging controversy about Russia strengthening its energy dominance in Europe amidst surging gas prices and shortfall in gas supplies.



Proponents of the pipeline, especially in Russia and Germany, have argued that the pipeline will help in mitigating the increased demand for gas in Europe amidst the decline in domestic gas production in the UK, Netherlands and Norway. However, its opponents, especially in Ukraine, and Poland have pointed out that the pipeline will make Europe overly dependent on Russia for its energy requirements. Several European countries have called upon Germany to prioritise European and trans-Atlantic unity over the pipeline. Their argument rests on Nord Stream 2 giving Russia politico-economic leverage over Europe undermining Europe's collective response to perceived hostile Russian actions, especially in

Eastern Europe. Critics have also argued that Gazprom is seeking to benefit financially from the ongoing surge in prices.

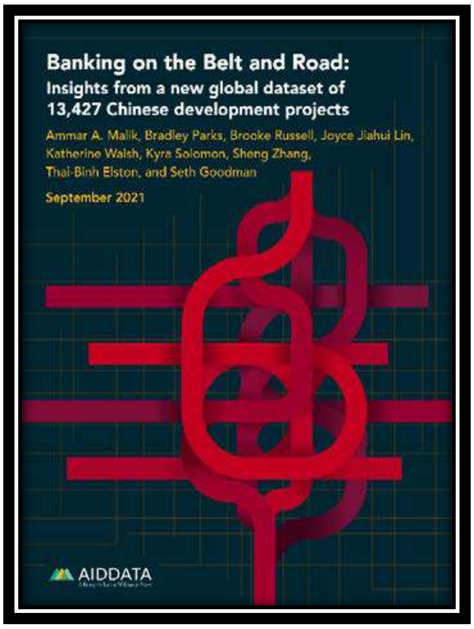
Interestingly, Germany has emphasised that Russia remains a reliable energy ally with there being no alternative to Moscow at a time when the Ukrainian pipelines are reaching the end of their service life. Nord Stream 2 guarantees the German industry and even Europe a secure supply of energy bypassing the Ukrainian route which has often been held hostage to geopolitical machinations. Germany has sought to reassure Ukraine of its commitment to Kyiv's nation-building by promising to build hydrogen energy infrastructure.

The US has long had reservations about Europe's energy dependence on Russia. It had, unsuccessfully, tried to pitch shale gas as an alternative to North Stream 2. The American calculus is based on the fear that this energy dependence would prevent Europe from taking a tough posture on Russia's acts of omission and commission in its immediate European neighbourhood.

While it is still too early to decipher whether the Nord Stream 2 is an opportunity or a threat to Europe the fact remains that Russia's dominance in the European energy market will continue for the foreseeable future given the slow movement in diversifying of supplies.

AidData's new dataset of Chinese development project reveals a major increase in 'hidden debt'

Belt and Road Initiative (BRI) has attracted controversies and garnered accolades in equal measure since its inception in the year 2013. The latest report ***Banking on Belt and Road*** by AIDDATA tries to shed light on the subject by adopting a data-driven approach and analyzing 13,427 Chinese development projects worldwide. The finding of the report further reveals a major increase in 'hidden debt'. The analysis broadly confirms what has already been in public but also breaks new ground in emerging trends under BRI.



These projects under BRI involve a total development finance commitment of $ 843 billion with an annual break up of nearly $ 85 billion. This makes China's spending twice as much as the US and other major powers. The report also highlights that most of this funding comes in the form of debt and not aid or grants, where China maintains a ratio of 31:1 between loans and grants. The report further confirms many of the domestic compulsions of China which have been cited as a justification for the BRI. Three reasons stand out: oversupply of foreign currency, higher industrial production capacity and vulnerabilities in certain natural resources. To kill the above three birds with one proverbial BRI stone, China first lends to lowincome and middle-income counties (LMICs) in dollar or euro-denominated debts at or near market rates. Then these BRI contracts make these countries buy project inputs like cement and steel from China, thereby deploying its over-capacity. At last, China secures imports of natural resources from these countries and the proceeds are used to service and repay Chinese debt itself.

With this increased lending, exposure comes increased risks. For better risk management, first of all, China has increased the average interest rate to nearly 4.2% going up to 6% with maturity periods. These terms are much tougher as compared to other multi-lateral lenders or OECD countries. It has also resorted to increased use of syndicate approach or co-financing. These banks are also resorting to safeguards like credit insurance, collateral or third-party guarantees, which has increased from 31% to 60% between the early 2000s and now.

This approach is combined with increased lending to the private sector, public sector banks and enterprises but not to foreign governments directly. As these loans are backed by some form of sovereign guarantee, this makes ascertaining the true picture of foreign debt exposure of these countries difficult. There is also a culture of secrecy surrounding the financing terms. This has led to large scale underreporting of Chinese debt exposure amounting to nearly 5.8% of the GDP of these LMIC countries.

The above issues have led to 35% of BRI projects facing corruption scandals, worker's rights violations or other public protests. The result is project delays and even the cancellation of some BRI projects. BRI is also facing increased competition from other lenders in the form of the *Build Back Better World* (B3W) program, which has arguably more transparent financing and better standards. In face of such challenges, China needs to better manage public perception or resort to political management in host countries or else make BRI projects more transparent and improve their standards after all.

Biden Administration's First Naval Strategic Guidance views China as its top competitor

The "Four C's: China, Culture, Climate Change, and COVID" are "most pressing" challenges for the US naval services, Carlos Del Toro writes in his first strategic guidance as the Biden administration's first Navy secretary. "We must tackle these Four Cs with a sustained sense of urgency and a strong bias for action," he wrote. Among these, China is highlighted as "the pacing challenge" that should be the focus of US Naval forces strategic planning and budgetary spending. Del Toro further argues that "for the first time in at least a generation, we have a strategic competitor who possesses naval capabilities that rival our own, and who seeks to aggressively employ its forces to challenge U.S. principles, partnerships, and prosperity."

Released on 07 October 21, ***The One Navy-Marine Corps Team: Strategic Guidance from the Secretary of Navy*** articulates Del Toro's vision to build, train and equip the Naval Forces to deter, and if necessary win conflicts and wars in support of the US defence strategy and national security priorities. Del Toro's top priorities – maintaining maritime dominance, empowering our people, and strengthening strategic partnerships – builds on Secretary of Defence Lloyd J. Austin's vision of integrated deterrence, with an agile and ready force.

The secretary's guidance largely follows the same lines the Navy had already been tracking for years: take care of the people, advance the technology and strengthen allied partnerships. However, the strategic guidance is rather upfront and emphatic in highlighting the growing severity of strategic competition with China. According to the document "the long-term challenge posed by the People's Republic of China is the most significant for the Department. The People's Liberation Army Navy (PLAN) has radically expanded both its size and capabilities, growing to become the world's largest fleet,".

Notably, the strategic guidance does place much greater emphasis on countering the People's Republic of China, compared to Russia. Rather than comparing Moscow with other major powers, the guidance compares Russia to Iran "and other authoritarian states" that use "grey-zone aggression" to challenge the international community.

The other notable, but not necessarily surprising, aspect of Del Toro's guidance is a greater emphasis on the threat of climate change. The guidance notes climate change as "a national security and warfighting imperative for the Department of the Navy" since "Climate change seriously increases the potential for greater conflicts on a global scale."

Although the guidance does not explicitly mention buying and building more ships, it does say that the Navy will expand its global posture. The guidance does not say how many ships will be needed. The Pentagon has yet to release the force posture review that is expected to signal where troops and resources will be repositioned around the world.

The guidance will inform choices to make in the upcoming 2023 and 2024 budget requests, which have become more restrictive. As per Secretary Navy, the department will have to make "tough and sometimes unpopular choices" and prioritize its capabilities around China while also having to find ways to increase efficiencies and savings.