

Dragoman Digest

Russia releases draft hydrogen strategy

Russia intends to rely on natural gas resources to produce grey hydrogen

Russia has drafted a three-phase strategy to develop its hydrogen industry and capture a 20 percent share of the global hydrogen market by 2030. The first phase involves the creation of three regional hydrogen clusters and investment in pilot projects and infrastructure. The far east cluster on Sakhalin Island aims to eventually supply up to 40 percent of **Japan's** hydrogen demand by 2030 and will focus on developing hydrogen transportation infrastructure. The northwest cluster is expected to be located at St. Petersburg and will be oriented toward Europe whilst the arctic cluster – likely to be proximal to the Gulf of Ob – will ship hydrogen to the Russian Polar territories which are currently isolated from the national power grid. The second phase, beginning in 2025, aims to achieve commercial-scale hydrogen projects and export up to 2 million tonnes per annum. From 2036, Russia hopes to be the largest supplier of hydrogen to the Asia Pacific and the EU.

There are several possible constraints facing Russia's vision, namely its reliance on grey hydrogen. Grey hydrogen is produced from fossil fuels such as natural gas. Japan and the EU have set ambitious targets that are expected to drive large-scale demand for blue and green hydrogen. Blue hydrogen is produced from natural gas, together with carbon capture, utilisation and storage (CCUS) whilst green hydrogen is produced using renewables that power an electrolyser.

However, Russia intends to produce grey hydrogen to leverage the country's vast natural gas resources and existing production capabilities. Russia's Gazprom already produces around 360,000 tonnes per year of grey hydrogen. Transforming grey hydrogen into blue hydrogen relies on deploying CCUS at a commercially viable scale. To produce a large-scale green hydrogen industry, Russia would need to massively scale up its renewable generation and electrolyser capacity. It currently has less than 3 gigawatts (GW) of installed wind and solar capacity but has ambitions to add around 12 GW of renewable capacity by 2035. Russia's strategy risks missing out in the competition for market share.



Report casts light on China's paltry social welfare system

Rudimentary safety net gaps belie world-beating superpower image cultivated by Beijing

Just over a decade ago, Beijing enacted the 2011 *Social Insurance Law*. The purpose of this legislation was to provide a comprehensive welfare safety net. According to Hong Kong based workers' rights NGO [China Labour Bulletin](#), Beijing has failed to achieve this objective.

China's pension system is based mostly on employer contributions into five state-backed social insurance funds. Workers in the informal sector are excluded, as are workers in localities where local governments have turned a blind eye to social security laws to attract investment. The result is that at the end of 2020, only 329 million workers and 128 million retirees out of a total workforce of 800 million were enrolled in state-backed urban worker social insurance funds. The 542 million people excluded from this scheme are covered by residential policies which last year, paid out pensions at an average of US\$27 per person per month. Whilst the pension paid out by the main state funds is currently adequate at around seventy percent of the average wage, pension expenditure will start to exceed contributions by the end of the decade as China's demographic profile ages. Though family networks have traditionally provided aged care in China, this is becoming unviable – a legacy of the one-child policy.

The healthcare picture is not much better, despite virtually all of China's population having some kind of medical insurance. Currently, 75 percent of the Chinese population are covered by rural or urban residential health insurance schemes. Last year, these funds paid out an average of US\$123 per person per year. Those covered by the urban worker health insurance policy received an average of US\$575 per year. Average health expenditure in China is US\$1,519 per person, with substantial up-front costs often involved. With many workers living a precarious existence, Beijing's announcement of a "three child policy" will remain purely aspirational without comprehensive and expensive reforms.

India's tropical island base

India's build-up of military facilities throughout the Indian Ocean has flown under the radar

India's long-suspected construction of a naval facility on the **Mauritian** Island of North Agalèga was recently confirmed by an Al Jazeera [investigation](#). Though details are opaque and New Delhi does not admit that the facility exists, the base's main objective appears to be to increase India's maritime domain awareness. Waters near Mauritius are currently a blind spot for the Indian Navy, but this will change if, as expected, P-81 surveillance aircrafts are able to operate from the base. North Agalèga is also close to shipping routes straddling the **Mozambique** Channel and waters around southern Africa which **China** uses for energy imports.

Competition with China, which has significantly beefed up its Indian Ocean presence, is a key motivating factor behind the North Agalèga base. India also has berthing rights in **Oman** and a series of radar facilities in **Sri Lanka**, **Seychelles** and **Madagascar**. [Plans](#) for a military facility on the Seychelles' Assumption Island appear to be on hold for now. India's soft military build-up creates opportunities for further collaboration with **Australia**, which has [offered](#) India use of its northern military facilities. India's placement of a temporary satellite tracking station on Australia's Cocos Island may be a prelude of more advanced co-operation to come. India is ultimately betting that superior logistics and domain awareness will allow it to challenge China's naval might in the Indian Ocean.



Israel's cautionary tale

Use of booster shots bodes poorly for developing world vaccinations

With nearly 80 percent of the population aged 12 and older fully vaccinated with Pfizer, **Israel** is yielding valuable insights into what a "living with COVID" world looks like. The bad news is that the last couple of months have seen a surge in delta cases, with Israel logging nearly 650 new cases daily per million people in mid-August. More than half of these are fully vaccinated individuals, though the unvaccinated are still far more likely to end up in hospital or die.

To get on top of the surge, Tel Aviv made booster shots available for people over 60 beginning at the end of July. As of this week, booster shots have now been expanded to people 30 and over. This strategy is already having an impact, with the reproduction rate having now dipped below 1 for over 60s. Facing delta resurgences of their own, the **US**, **France**, **Germany** and **Canada** are also planning booster campaigns.

The World Health Organisation has urged developed countries to help inoculate the Global South before providing booster shots. Of course, Western vaccines are not the only game in town. Both **China** and **Russia** have already shipped or pledged to deliver hundreds of millions of vaccines abroad. However, questions abound both within China and abroad about the efficacy of Chinese vaccines. Several Southeast Asian countries including **Thailand** and **Malaysia** have quietly ditched Chinese vaccines. Though believed to be relatively efficacious, Russia's Sputnik vaccine is experiencing delivery delays which have impacted South America in particular.

Booster shots will undoubtedly help combat Delta. However, neglecting the vaccination of the developing world risks the emergence of new, more deadlier variants – with worldwide ramifications.

China well-positioned to secure Port of Beirut reconstruction tender

Reconstruction would boost Beijing's commercial and maritime presence in the region

One year on from the ammonium-nitrate explosion that destroyed the Port of Beirut, **Lebanon** is advancing discussions separately with **China, France, Turkey** and **Germany** for the port's reconstruction. Whilst the Government is yet to launch a formal tender process, China may emerge as a frontrunner because it is unlikely to mandate political or economic reforms in return for investment. Meanwhile, France, the **US** and Germany have said that any substantial investment is contingent on the formation of a government committed to tackling corruption. Lebanon's Cabinet-building process has been stalled for months, while port reconstruction efforts are urgent. The reconstruction model under consideration is reportedly the build-operate-transfer model favoured by China.

There has been some concern over the security ramifications of a Chinese-owned or operated Beirut port. These concerns are likely overstated. For the foreseeable future, Beijing will have limited willingness or the required ability to challenge US' military dominance in the region. The most material implication would be the consolidation of Beijing's footprint in the region's maritime trade. It already has an extensive and expanding commercial port presence in **Egypt, Israel, and Greece**. China is currently upgrading the container capacity of Egypt's Mediterranean ports to connect them to the Piraeus port in Greece under its Maritime Silk Road Initiative. The strategic position of Beirut's port would give China enhanced access to eventual post-war reconstruction efforts in **Iraq** and **Syria**. Lebanon's willingness to "look east" toward China opens the possibility for China to grow its presence in Lebanon beyond the Beirut port. This aligns with Beijing's broader economic and strategic interests in the region to create China-centric global trade routes.

