

Dentons Flashpoint

Daily Global Situation Report

August 3, 2022

Global Situation Update: August 3, 2022

KEY TAKEAWAYS

China imposes trade bans on Taiwan and escalates military activity in retaliation to US Speaker Pelosi's visit.

ASEAN warns reconsideration of Myanmar peace plan if the country's military rulers execute more prisoners.

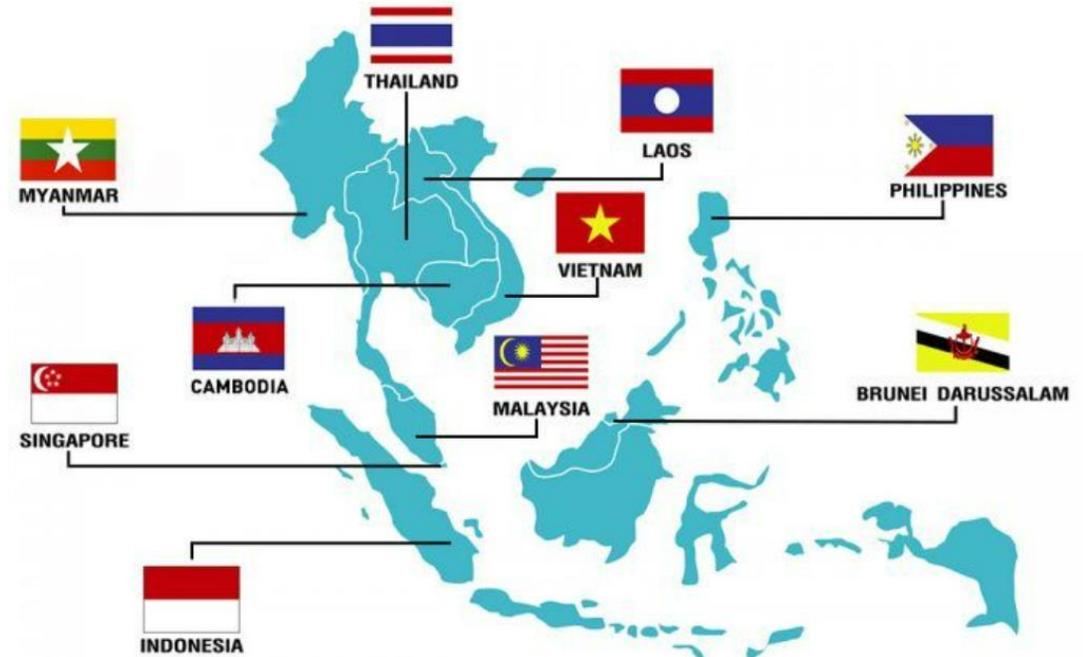
The first grain ship to set sail from Ukraine in months successfully reached Turkey.

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WHAT WE'RE WATCHING

Today, the Association of Southeast Asian Nations (ASEAN) Foreign Ministers Meeting takes place in Cambodia and on the agenda are Myanmar and tensions in the South China Sea. Phnom Penh is hosting the summit and has objected to criticisms of China within the 10-member group and is also coordinating with the military junta in Myanmar.

The summit comes as the junta in Myanmar extended its state of emergency by six months earlier this week and pushed elections until 2023. International monitors say that security forces there have killed more than 2,100 people and detained thousands of political and civil society opponents and are skeptical that the elections will be free and fair.



Note: This report is based on sources and information deemed to be true and reliable, but Dentons makes no representations to same.

Global

Russia accused the US of direct involvement in the Ukraine war by approving targets selected by Ukrainian intelligence when using US advance missile systems.

- China met the visit to **Taiwan** by US House of Representative Speaker Pelosi with furious condemnation and military maneuvers around Taiwan, while warning that the visit will have a “*severe impact*” on relations between Beijing and Washington. Russia and North Korea supported China’s claims of sovereignty over Taiwan and right to respond to the provocative visit by Pelosi.
- Speaking at the nuclear nonproliferation conference at the UN, a Russian diplomat said that the conflict in Ukraine does not warrant Russia's use of **nuclear weapons**, but Moscow could decide to use its nuclear arsenal in response to “*direct aggression*” by NATO countries over the invasion.
- The first grain ship to set sail from Ukraine in months reached Turkey, marking the completion of a critical first step in a deal aimed at alleviating the **global food crises**.
- G7 ministers reiterated their commitment to cutting dependence on **Russian oil**, including a total ban on services that allow it to be traded around the world unless its price is below an agreed cap. Europe increased its imports of Russian diesel by more than a fifth in July, highlighting the challenge the continent faces in breaking away from Moscow’s energy supplies.

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Markets & Business

The number of companies filing for voluntary liquidations in England and Wales hit a record high in Q2 as businesses struggled without the support available to them during the COVID-19 pandemic.

- **Forbes** it is exploring a sale of its business, months after it pulled out of a deal to go public through a special purpose acquisition company.
- US companies are reporting mostly upbeat news this **earnings season**, pushing back against forecasts of gloomy outlook on both businesses and the economy. More than halfway into Q2 reporting period, S&P 500 company earnings are estimated to have increased 8.1 percent over the year-ago quarter.
- Ukrainian state-owned gas company **Naftogaz**, a week after becoming the first government entity to default since the start of the Russian invasion, is proposing a new debt payment freeze plan which includes a two-year payment freeze and two-year deferral on the maturities of the notes.
- **Chesapeake Energy**, a pioneer of the shale revolution that went bankrupt during the coronavirus pandemic crash, plans to exit oil altogether and return to its roots as a natural gas producer.

Environment, Sustainability & Governance

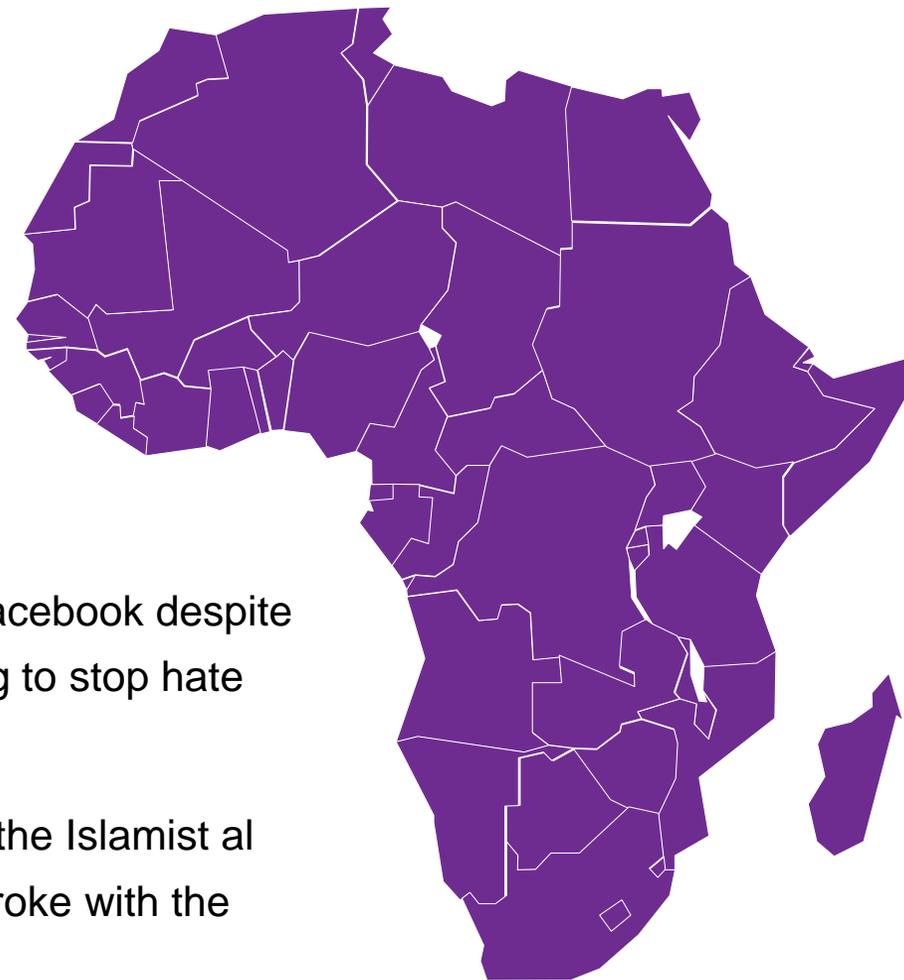
Turkish Airlines announced a new program enabling passengers to offset emissions from travel through carbon offsets.

- The European Commission said it had approved the German government's 3-billion-euro scheme to support **renewable energy and waste heat-based district heating programs**.
- The Financial Conduct Authority, Britain's financial watchdog, said that the cost of living crisis, meeting climate targets and improving diversity should be reflected in how banks determine **pay and bonuses**.
- A major affiliate of Toyota **falsified emissions data** on some engines going back to at least 2003, more than a decade earlier than previously indicated, a company-commissioned probe showed.
- Record flood losses in Australia and winter storms in Europe contributed to \$35 billion of insured losses from **natural catastrophes** in the first half, according to the research arm of reinsurance group Swiss Re.

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Africa

- In remarks, **Sudan's** number two military commander, Hemedti, said that the military junta currently ruling the country “*had failed*” to bring about promised change, and said he would intervene himself if the country’s situation continues to worsen.
- **Kenyan** ministers said the government has no intention of banning Facebook despite a watchdog in the country accusing the social media platform of failing to stop hate speech.
- **Somali** Prime Minister Barre named a co-founder and spokesman of the Islamist al Shabaab group as minister for religious affairs; the minister publicly broke with the group in 2013.
- The **Democratic Republic of the Congo** said that it would reassess plans for the withdrawal of a UN peacekeeping mission, currently slated to remain in the country for two years, after deadly protests against the international presence.



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Asia

- In retaliation for **Taiwan** receiving **US** Speaker Pelosi, **China's** customs department announced a suspension of more than 2,000 of about 3,200 food products from Taiwan, while its commerce ministry banned export of natural sand to Taiwan.
- Digital attacks against **Taiwanese** government websites on Tuesday were likely launched by **Chinese** activist hackers rather than the Chinese government, per a cybersecurity research organization.
- **Cambodian** Prime Minister Hun Sen said the Association of Southeast Asian Nations (**ASEAN**) will be forced to reconsider a peace plan agreed with **Myanmar** if the country's military rulers execute more prisoners.
- **Australia** announced its first review of the country's military in a decade, warning that rising geopolitical tensions around the world were rapidly complicating its strategic outlook.



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How do You Manage Incident Response?

2022 has already seen business disrupted by extreme weather, ransomware attack, the ongoing pandemic and more. The common refrain “It’s not if, but when” rings truer than ever for disruptive incidents that will impact business as usual.

Working with Dentons, you can effectively develop an organizational incident-behavior adopted by all your team members. Dentons will help you build muscle memory through tabletop exercises, which are crafted to fit the business strategy of every client.

Our team plays events and incidents of different severities and complexities and accounts for real-world factors such as inconclusive evidence, mistakes by responders, and the business impact of eradication steps. Our tech-savvy lawyers continuously revise the playbooks per the evolving sector-specific threat landscape.

Dentons tabletop sessions are fluid, and designed to enhance preparedness with services, including:

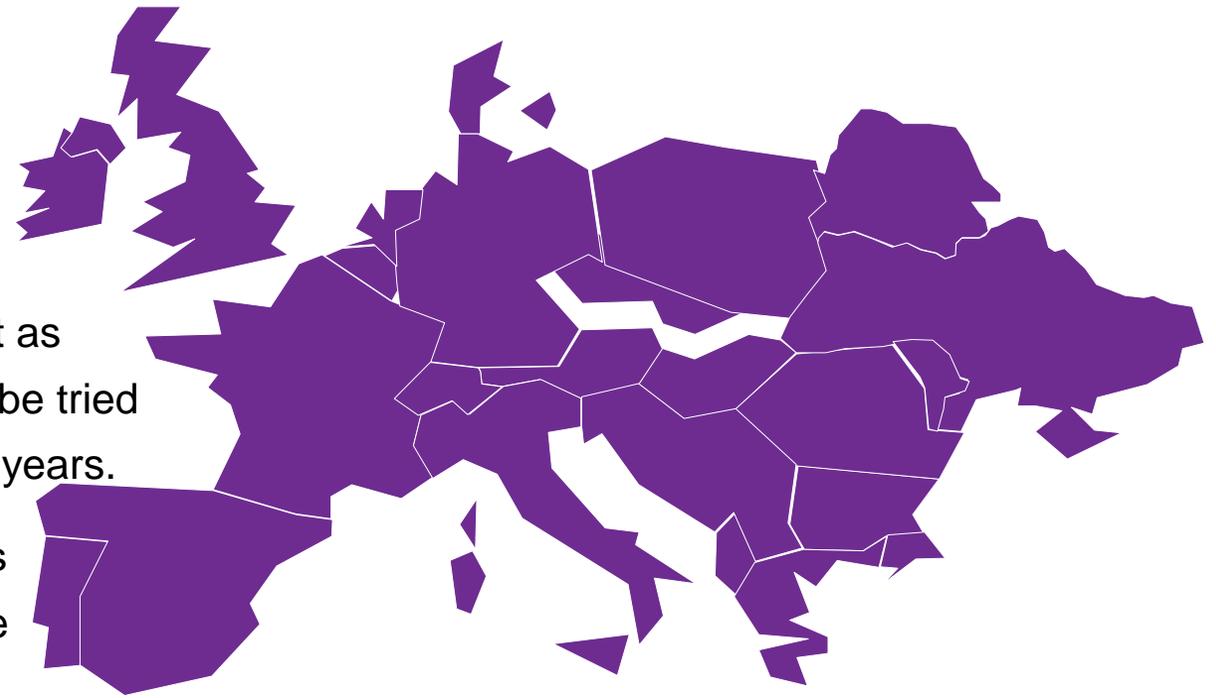
- ❖ Ransomware tabletop exercises
- ❖ Post-tabletop action reports
- ❖ Maturity assessments for preparedness
- ❖ Supply-chain attack simulation
- ❖ Comprehensive incident response plan
- ❖ Threat analysis and monitoring

All interaction with Dentons is attorney-client privileged

To learn more about the bespoke intelligence and risk services from Dentons, contact [Karl Hopkins](#).

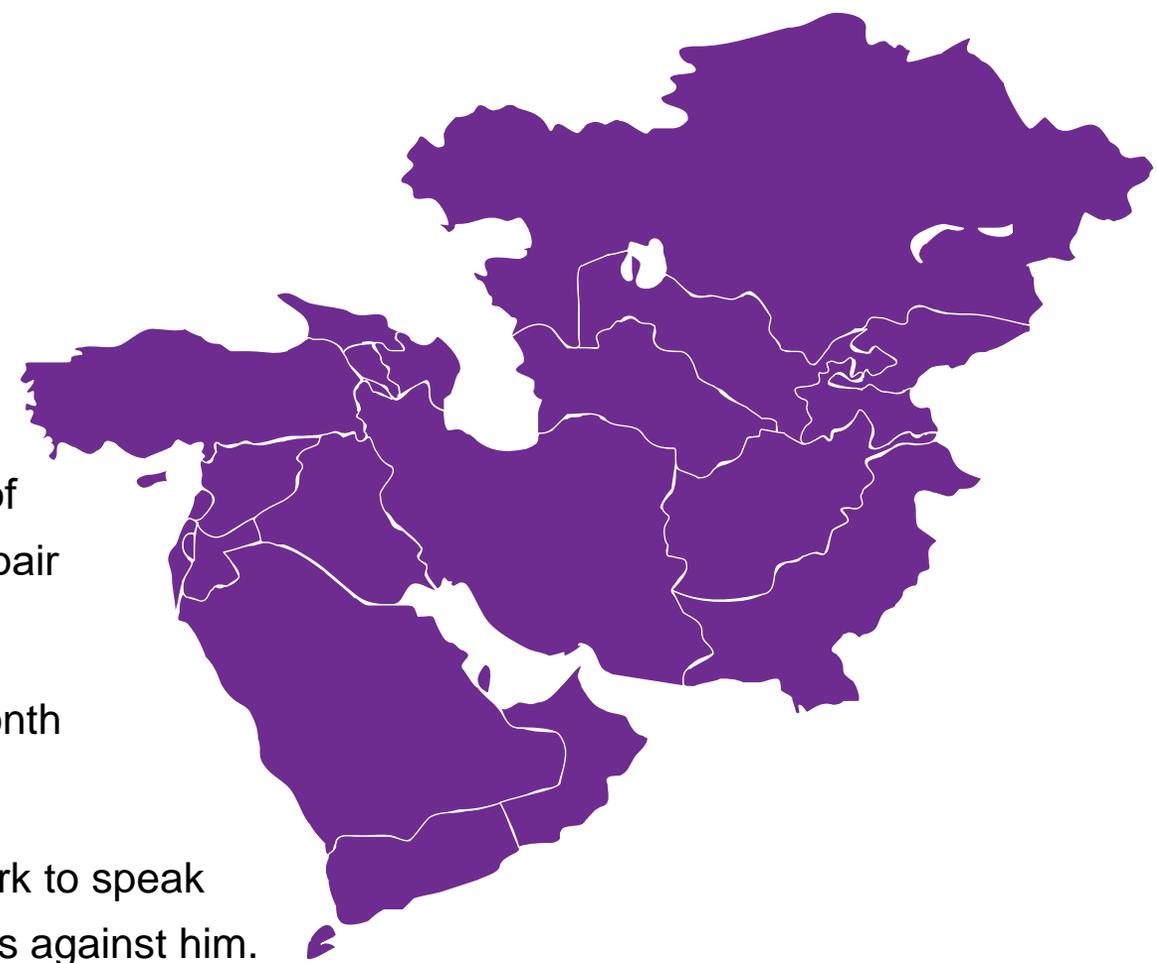
Europe

- **Russia's** top court designated **Ukraine's** Azov Regiment as a terrorist group, paving the way for captured soldiers to be tried under stringent anti-terror laws and be jailed for up to 20 years.
- The **US** imposed sanctions on **Russian** President Putin's reputed girlfriend and other members of the Moscow elite and businesses enabling the war in **Ukraine**.
- **French** far-right leader Marine Le Pen said sanctions against **Russia** were pointless and hurting the French and other west Europeans more than they hurt Moscow.
- **Moldova's** pro-Russian opposition leader Dodon, who retains influence despite being under house arrest for treason, called for snap presidential and parliamentary elections and told the pro-Western government to go to Moscow to negotiate cheaper natural gas from **Russia** as prices soar.
- **France** became the latest country in Europe to end pandemic-era entry restrictions for visitors that require proof of vaccination or a negative coronavirus test, joining **Italy, the UK, Portugal and Germany**.



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Middle East



- The **US** announced multibillion sales of Patriot batteries to **Saudi Arabia** and THAAD missiles to the **UAE**, the largest arms deal of President Biden's tenure and a potential signal of US support for Gulf security following Biden's visit there to repair relations.
- The UN special envoy for **Yemen** announced another two-month extension of the fragile ceasefire between warring parties.
- **Iranian** President Raisi said that he plans to travel to New York to speak at the UN General Assembly next month despite **US** sanctions against him.
- **Iraqi** leader Moqtada al-Sadr called on his supporters to stop occupying parliament, which they have remained in since the weekend, but to continue protests of a proposed Iran-backed prime minister.

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Americas

- Subsidies from the **Mexican** government to combat rising inflation in the country have cost some 575 billion pesos (\$28.04 billion) this year, officials reported.
- **Venezuelan** oil exports fell 27 percent in July from the previous month due to disruptions from outages to power supplies.
- **Brazilian** President Bolsonaro said that recent drops in Brent prices could prompt another state oil price cut.
- The **Nicaraguan** government ordered the closure of seven Catholic radio stations linked to a bishop who has been critical of the country's president, part of a pattern of rising repression of government critics.



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Americas: US

- In a third “1-in-1,000-year” rain event in the mainland US in about a week, some areas of central and southeastern Illinois registered 8 to 12 inches of rain in less than 12 hours, triggering **flash floods**.
- **US job openings** fell by the most in just over two years in June as demand for workers eased in the retail and wholesale trade industries, but overall, the labor market remains tight.
- **Credit card debt** surged in the US from April through June as Americans borrowed billions of dollars to continue spending in the face of growing inflation.
- House of Representatives Speaker Pelosi arrived in **Taiwan** on a trip to show an unwavering American commitment to the Chinese-claimed self-ruled island, the highest-level US visit in 25 years.



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What Zambia's Debt Restructuring Deal Means for a Potential Global Debt Crisis

By Anni Coonan

Earlier this week, Zambian officials announced that the country has come to a landmark debt relief agreement with China, paving the way for an IMF bailout for the country. The agreement also provides a first test case for how China and international creditors could work with indebted nations to avoid a wave of defaults in emerging markets following pandemic years that have left many poorer nations severely debt burdened.

Pandemic Debt Wave

The past years of the COVID-19 pandemic have prompted a historic surge in debt levels. Today, 58 percent of the world's poorest countries are in debt distress or at high risk of it, a danger that is increasingly spreading to middle-income countries as well (see Sri Lanka's recent historic default amid its political crisis). A years-long trend of debt accumulation driven by years of sustained budget shortfalls – between 2011 and 2019, public debt in a World Bank sample of 65 developing countries increased by 18 percent of GDP on average - culminated in 2020 with the highest levels of debt and the fastest year-on-year spike in five decades.

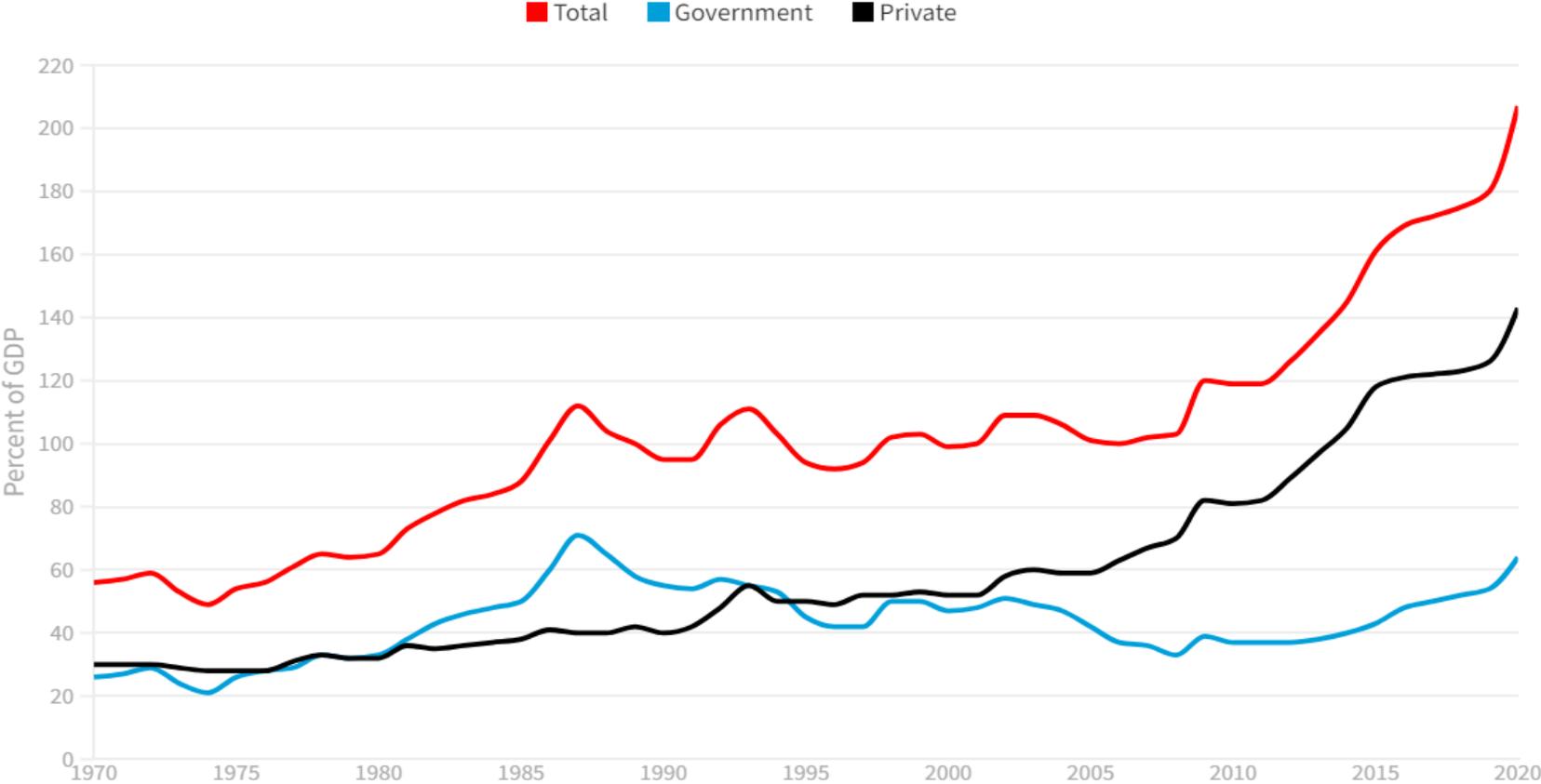
Global Debt Levels as a Percentage of GDP

Although the mounting debt crisis was, in part, precipitated by necessary policy measures to respond to unprecedented pandemic-era economic shocks, changes to the debt environment nonetheless concerned analysts. The debt spike, driven by increasing pressures on government budgets and the low cost of debt in light of sinking interest rates, also prompted an uptick in sovereign ratings downgrades for emerging and developing markets (EMDEs). Further, the rise in debt levels coincided with increasing fragmentation of creditors, which economists worry makes debt restructuring significantly more complex. Loans from Paris Club creditors

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Global Debt Levels as a Percentage of GDP



Sources: [Global Economic Prospects \(June 2022\)](#), [International Monetary Fund](#)



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accounted for 18 percent of debt in 2010, but by 2019, the share was just 8 percent. At the same time, borrowing from China and commercial creditors nearly tripled (however, Chinese debt remains opaque, with some analysts estimating that as much as 50 percent of Chinese lending is not recorded internationally).

Zambian Restructuring

Zambia became the first country to default during the pandemic in 2020, when it halted payments on \$17 billion of external debt. Over the last ten years, China emerged as the largest sovereign creditor for the country, extending \$6 billion in debt for ambitious infrastructure projects. Since defaulting, Zambia has been engaged in talks with the IMF for a \$1.4 billion bailout, a process that has required assurances on debt relief from its creditors to move forward. Over the weekend, the creditor committee – including China – announced that it would support “significant debt relief” for Zambia, including the cancellation of some \$2 billion in unrealized loans. While analysts predict that China will likely not deviate much from its typical debt restructuring playbook, in which it mostly relies on extending debt maturities and is hesitant to approve significant debt haircuts, a small trim to Zambia's balance is likely.

China's presence at the negotiating table at all is the largest coup for Zambia's restructuring process, as Beijing typically prefers to conduct debt negotiations on a bilateral level. The agreement is the first test of the Western-conceived Common Framework for debt restructuring, which aimed to bring China to the table for debt negotiations, and the first demonstration of Beijing's April 2021 promise to promote debt relief for burdened countries. Ethiopia and Chad have also applied for Common Framework treatment, but their negotiation process has been slower – although their creditor committee negotiations were also slated for July, they have not yet yielded results.

Debt Risks Remain

The Zambian case is a hopeful sign of Chinese flexibility on restructuring and trust in non-Chinese co-creditors, which could signal greater maneuverability for debt-burdened countries and their creditors in the future. The apparent success of the Common Framework treatment could lead more countries to sign up, solidifying the multilateral process. However, risks remain. On a global level, the risk of widespread default is a significant threat to global financial stability, as well as the ability of governments throughout the globe to meet Sustainable Development Goals. Rising interest rates

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throughout the world mean that servicing debt will become more and more expensive, likely putting more EMDEs at risk of debt distress, and will push investors to seek safer assets, restricting access to international markets even for countries that do not default.

On a national basis, several other countries warrant concern. The recent default in Sri Lanka and ongoing restructuring negotiations in Argentina and Lebanon are all potential flashpoints, as all three countries are experiencing varying levels of civil unrest related downward economic spirals. All three countries have struggled to varying degrees with government stability and credibility, which could complicate negotiations. Sri Lanka, for one, is not eligible for the low-income Common Framework restructuring process, which could complicate the process of bringing Beijing onboard. More generally, critics of the Framework treatment argue that the process is too vague and slow-moving to offer sufficient relief. Prolonged negotiations, or unfavorable outcomes (such as requirements for austerity measures), could prompt further unrest and worsen the humanitarian impact of economic meltdowns. Despite the promising sign of Chinese participation in restructuring negotiations and Beijing's unexpected agreement to a debt haircut, the barrier is high

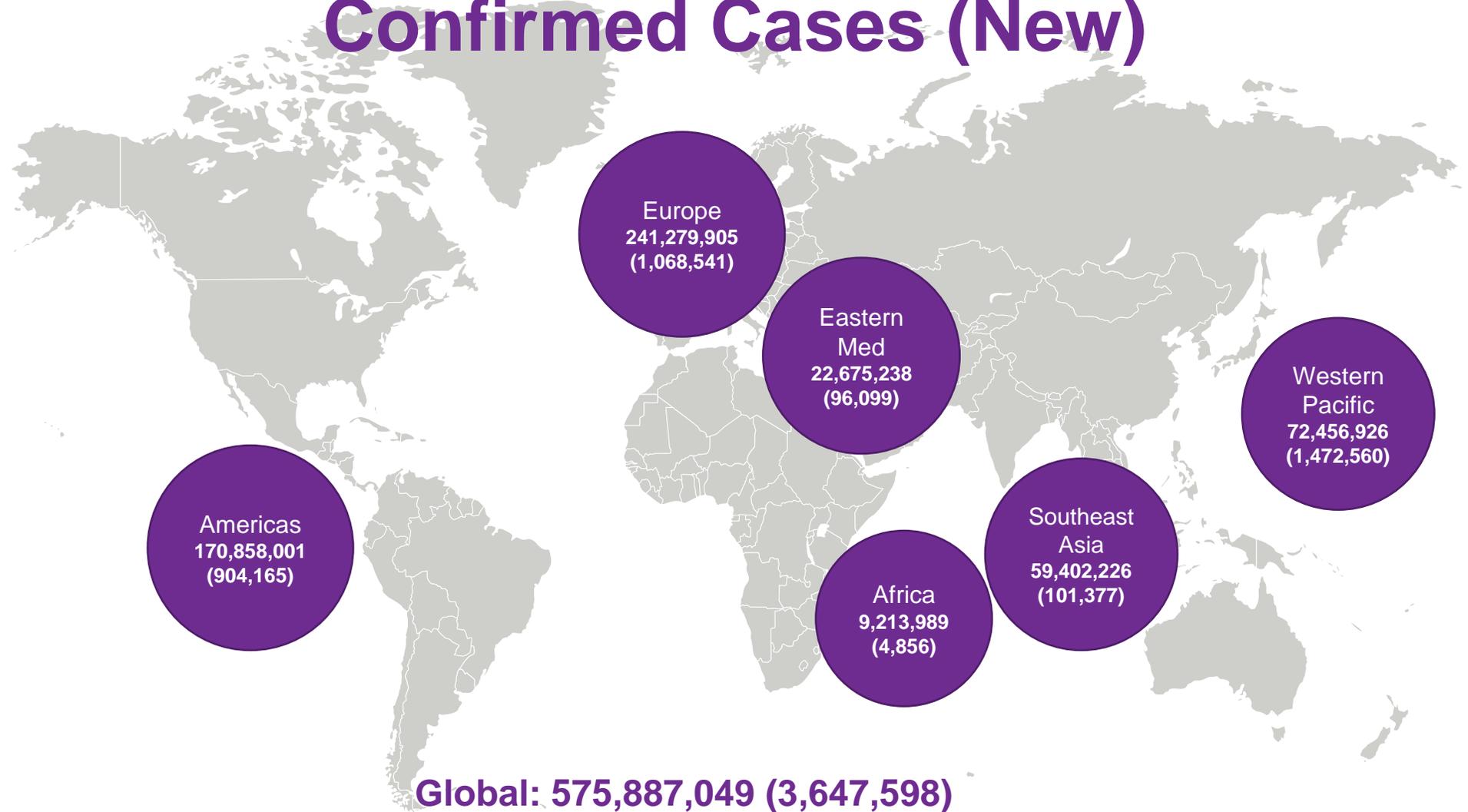
for cooperation on debt restructuring as global economic conditions deteriorate and pressures increase on debt-burdened, lower-income nations.

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Coronavirus Condition Updates

As of 6:04 pm CEST on August 2, 2022

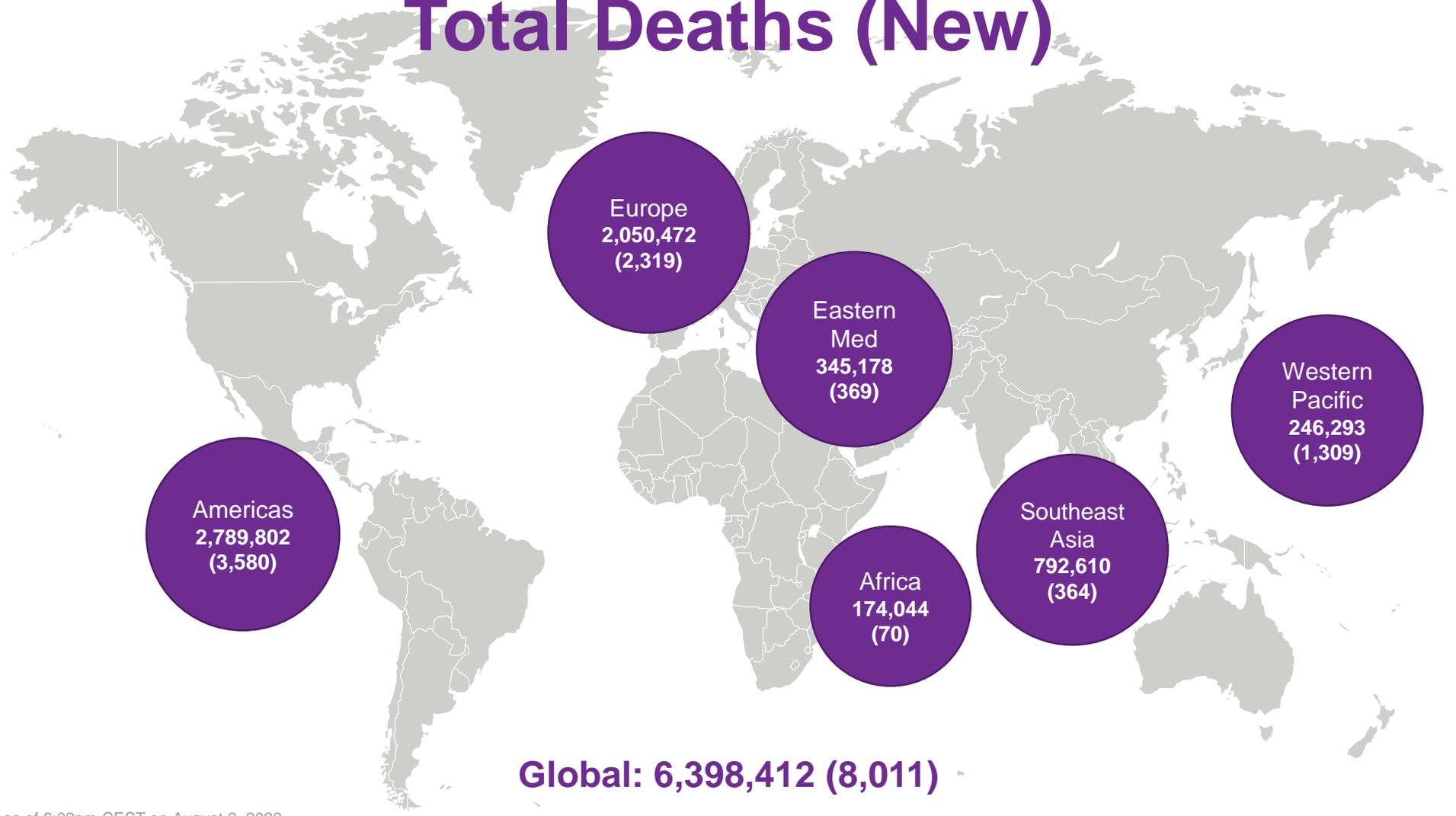
Confirmed Cases (New)



Reflects data as of 6:02pm CEST on August 2, 2022.
Data Source: World Health Organization

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Total Deaths (New)



Reflects data as of 6:02pm CEST on August 2, 2022.
Data Source: World Health Organization

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Contacts

This summary is based on reports sourced from among the 75 countries in which Dentons currently serves clients as well as from firms in other locations, some of which will formally join Dentons later in 2020. We are pleased to share this complimentary summary and contemporaneous assessment, with the caveat that developments are changing rapidly. This is not legal advice, and you should not act or refrain from acting based solely on its contents. We urge you to consult with counsel regarding your particular circumstances.

To read additional analysis, visit the [Dentons Flashpoint portal](#) for insights into geopolitics and governance; industry and markets; cyber and security; science, health and culture; and economic and regulatory issues.

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