

Dentons Flashpoint

Global Situation Report

November 14, 2022

Global Situation Update: November 14, 2022

KEY TAKEAWAYS

The G20 leaders gather in Bali amid pressing geopolitical tensions.

The IMF warns of risks to the global economy from the rivalry between China and the US.

Digital asset exchanges rush to reassure clients that their funds are safe after the collapse of FTX crypto exchange.

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

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WHAT WE'RE WATCHING

The G20, or Group of Twenty, kicks off an annual two-day summit tomorrow amid geopolitical tensions driven by the Russia-Ukraine conflict and US decoupling with China that will likely undermine efforts to reach consensus on critical issues. Several pressing global issues will be on the agenda, including climate change and the cost-of-living crisis being driven by rising food and fuel prices.

Russian President Putin is skipping the event, considered the premier forum for international economic cooperation, while US President Biden and Chinese President Xi Jinping are expected to meet. Non-aligned countries such as Turkey, India and Indonesia will likely continue to position themselves as strategically neutral as they benefit from political and economic support from the West, as well as low-cost Russian energy.



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Global

Debt levels among low- and middle-income countries rose sharply in 2021, with China accounting for 66 percent of lending by official bilateral creditors, per World Bank President David Malpass,

- Chinese leader Xi and US President Biden met today for long-awaited face-to-face talks. They were expected to discuss Taiwan, Ukraine and North Korea's nuclear ambitions. The head of the IMF warned of risks to the global economy from the rivalry between **China and the US**, while describing tariffs as counterproductive.
- Indonesia President Widodo launched a **G20 pandemic fund**, calling for more contributions to improve preparedness for future pandemics was not yet sufficient.
- Russia called for the G20 to stop talking about security and focus on the world's most pressing socio-economic problems, ahead of a summit set to be dominated by Western criticism of Russia's invasion of **Ukraine**.
- Russia said there was no agreement yet to extend **Black Sea Grain Initiative**, repeating its insistence on unhindered access to world markets for its own food and fertilizer exports.

Markets & Business

Blackrock Inc has put off the launch of an exchange traded fund (ETF) that invests in Chinese bonds, amid growing tension between Washington and Beijing.

- At least \$1 billion of customer funds have vanished from collapsed crypto exchange **FTX**. The exchange's founder Sam Bankman-Fried reportedly secretly transferred \$10 billion of customer funds from FTX to Bankman-Fried's trading company Alameda Research. Bahamas-based FTX filed for bankruptcy on Friday.
- Digital asset exchanges are rushing to reassure clients that their funds are safe as the collapse of **FTX crypto exchange** panics investors.
- Registrations for **Twitter's** premium subscription service, Twitter Blue, were put on hold just days into its launch, after its "blue tick" feature was abused by impersonators on the platform.
- German military equipment manufacturer **Rheinmetall** will acquire Spanish explosives and ammunition maker **Expal Systems** for an enterprise value of 1.2 billion euros (\$1.24 billion).
- French telecoms group **Orange** launched a new 5G network in Botswana in a first step towards rolling out the high-speed data offering to other markets in the Middle East and Africa.

Environment, Sustainability & Governance

At the COP27 summit, UN experts published a list of projects worth \$120 billion that investors could back to help poorer countries cut emissions and adapt to the impacts of global warming.

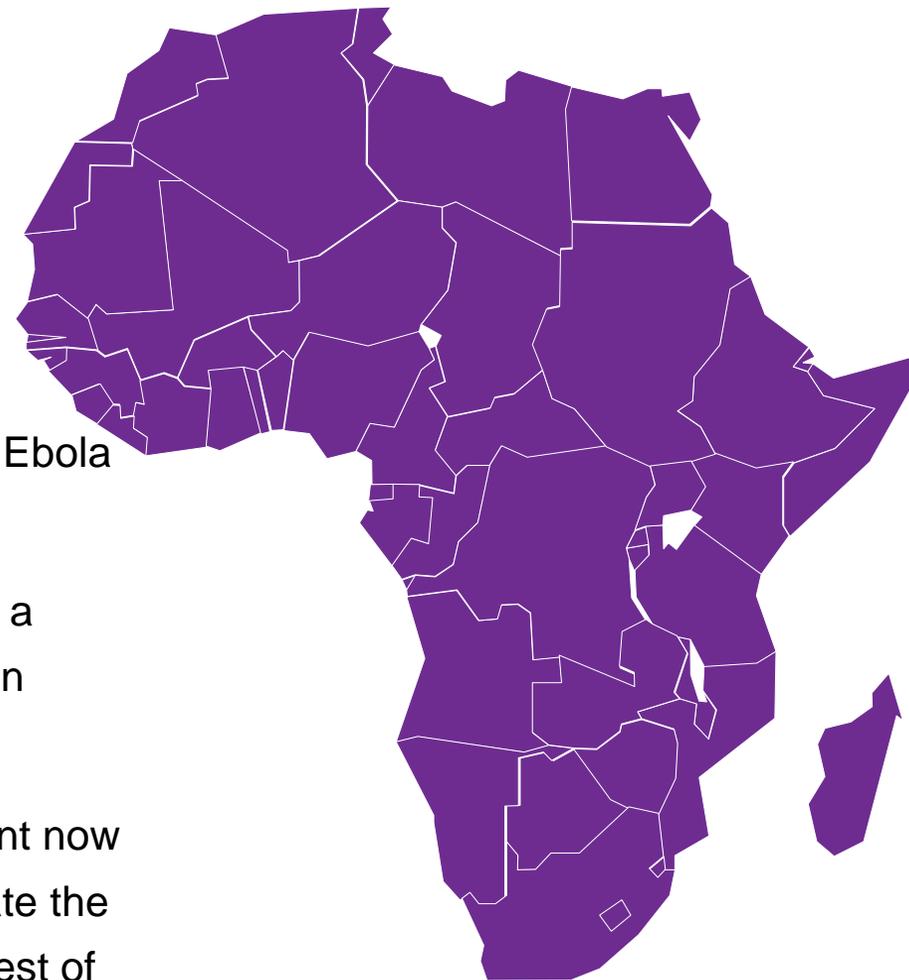
- Measurements taken by European Space Agency satellites show that, from June through September, the waters off north Africa and southwest Europe were 2 to 5 degrees Celsius above the 1985-2005 daily averages. Temperatures peaked at nearly 31C in some parts. In the **warming waters**, by September, populations of sponges, sea-stars, fish, and mollusks were dying en masse in the waters off France and Spain.
- Apple **shareholders** are seeking votes at the annual meeting next year on proposals regarding the company's stance towards unionizing, working from home policies and human rights in China.
- Mexican state oil company Pemex announced plans to work with the US Environmental Protection Agency to reduce greenhouse gas emissions, especially **methane**, to meet ambitious international commitments.
- **Deforestation** in Brazil's Amazon rainforest reached a record for October, with land-clearing in the region speeding up as the country undergoes a transition to a more conservation-friendly government.

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Africa

- **Uganda's** health ministry confirmed an Ebola case in Jinja in eastern Uganda, the first time the outbreak has spread to a new region of the country from central Uganda where cases have been confined so far. Ebola kills about half of the people it infects.
- The **Ethiopian** government and Tigrayan forces on Saturday adopted a roadmap for implementation of a peace deal that both sides reached in South Africa this month.
- **Nigeria** plans to grant a concession on its \$1.3 billion hydropower plant now under construction and is seeking bids from private investors to operate the China-funded plant. The Zungeru Hydroelectric Power Plant, the biggest of its type in Nigeria, is expected to generate 700 megawatts.
- The IMF welcomed a long-awaited debt deal by **Chad's** creditors, assessing it would reduce the African country's risk of debt distress while guarding it against downside risks, including lower oil prices.

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Asia

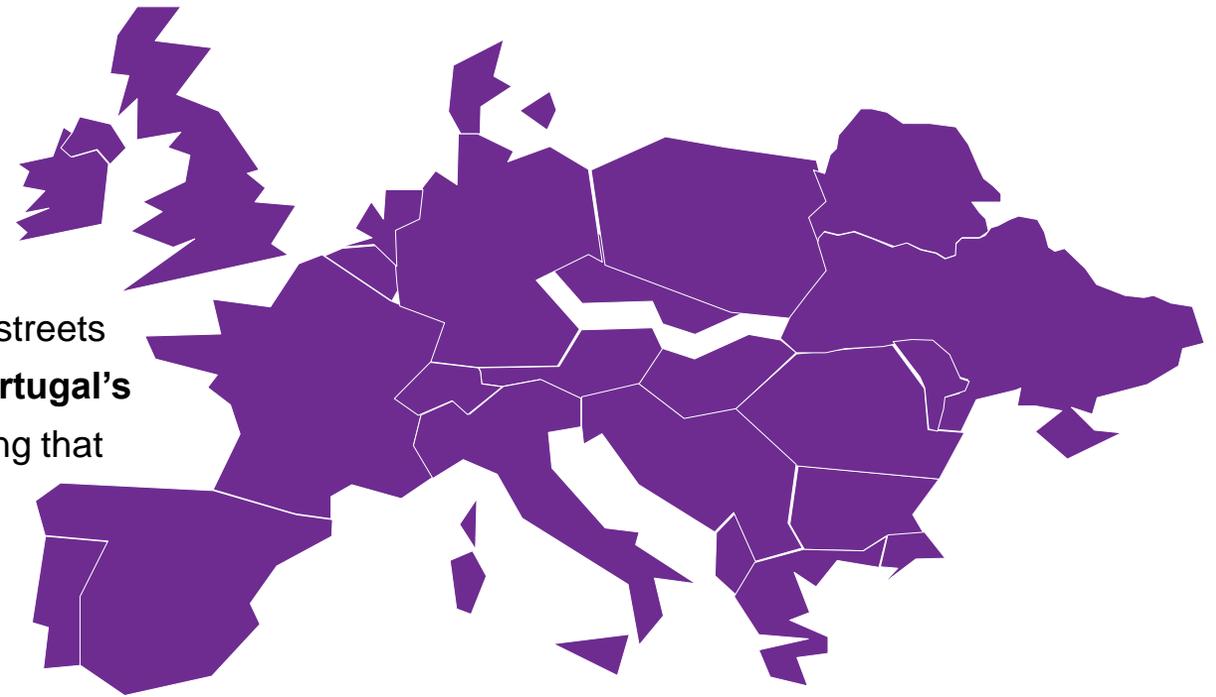
- **South Korean** President Yoon Suk-yeol assessed that **North Korea** is conducting more "aggressive" provocations based on confidence over its nuclear and missile programs, calling for strong cooperation with the **US and Japan**. His comments followed a trilateral meeting with the US and Japan on the margins of the ASEAN summit in **Cambodia**.
- **Chinese** regulators have asked financial institutions to extend more support to property developers, including loan repayment extensions, to shore up the country's struggling real estate sector.
- The **Australian** government is consider making illegal the paying of ransoms to cyber hackers, following recent cyber-attacks affecting millions of Australians.
- Meeting with **Cambodian** Prime Minister Hun Sen, **US** President Biden raised concerns about **Chinese** activities at it Ream Naval Base, stressing the importance of full transparency.



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Europe

- Hundreds of protesters angry about the climate crisis took to the streets of Lisbon on Saturday, with dozens storming a building where **Portugal's** Economy Minister Antonio Costa e Silva was speaking, demanding that the former oil executive resign.
- Six people were killed, and 81 others wounded on Sunday when an explosion rocked a busy pedestrian street in central Istanbul. **Turkey** blames a Kurdish militant group.
- As hundreds of residents lined the streets of Kherson on Saturday waving national flags, chanting "thank you, thank you" and decorating **Ukrainian** servicemen with blue and yellow ribbons, Ukraine's general staff reported continued fierce fighting along the eastern front in the Donetsk and Luhansk regions.
- In **Albania**, tens of thousands of protesters scuffled with police in front of the office of Prime Minister Rama on Saturday, protesting against corruption, rising poverty and a growing number of people leaving the country.
- **German** Chancellor Scholz discussed energy and trade ties with **Vietnam's** Prime Minister Pham Minh Chinh during a visit to Hanoi on Sunday, the first for a German leader in more than a decade, coming as many German firms consider diversifying their manufacturing operations by expanding their presence beyond **China**.



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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.

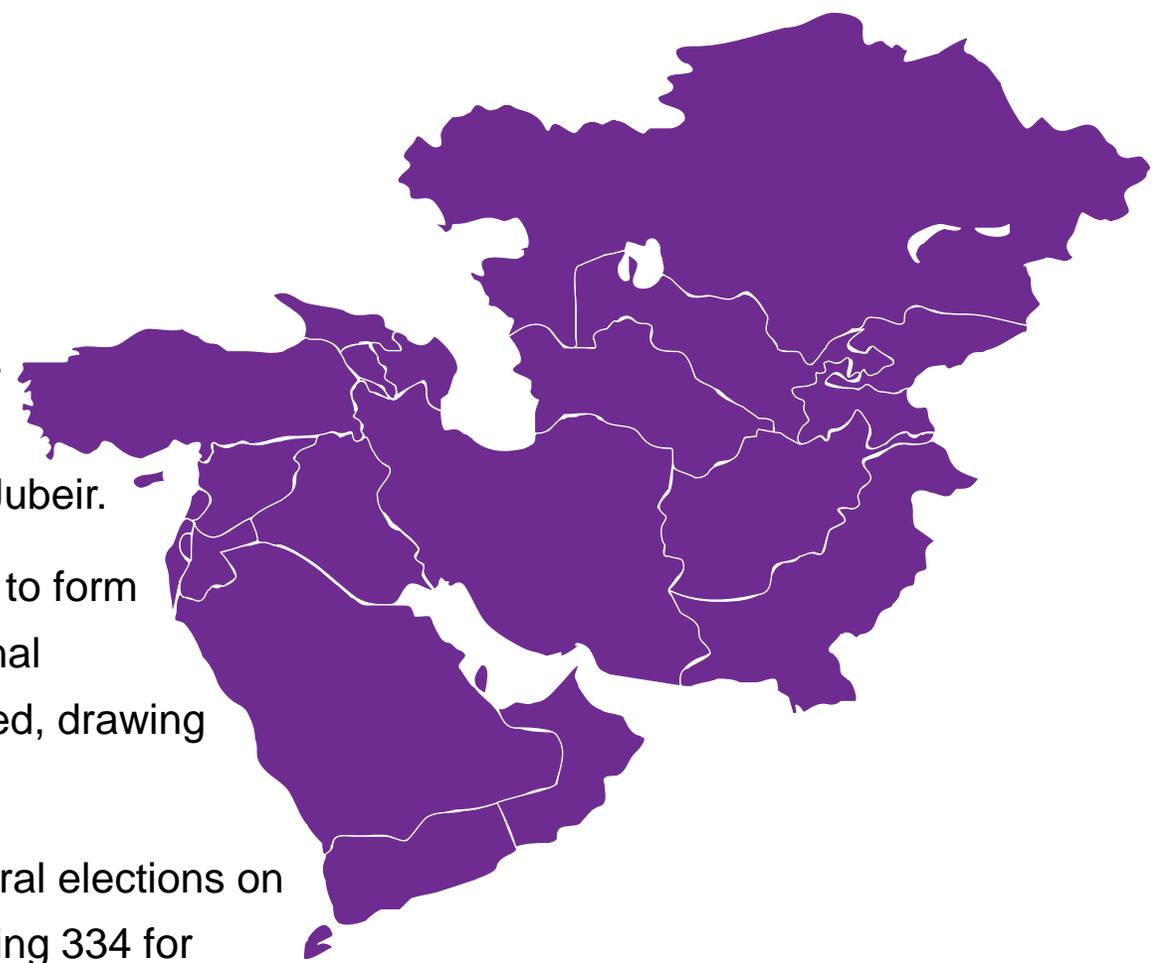
Dentons tabletop sessions are fluid, and designed to enhance preparedness with services, including:

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

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

Middle East



- Strengthening trade ties and regional security will be priorities in an upcoming visit by **Chinese** leader Xi Jinping to **Saudi Arabia**, per Saudi minister of state for foreign affairs Adel Al-Jubeir.
- Benjamin Netanyahu received an official mandate on Sunday to form a new **Israeli** government, pledging that he would seek national consensus after an election in which Jewish far-rightists surged, drawing concern at home and abroad.
- **Bahrain** said voter turnout was more than 70 percent in general elections on Saturday. Just over 500 candidates contested the race including 334 for 40 parliamentary seats. Authorities said the total number of women candidates was more than double the 2018 figure at 94.
- **Israeli** missiles hit a major air base in **Syria's** Homs province on Sunday, killing two servicemen and injuring three others. Military sources said the air base, at Shayrat, was recently used by the **Iranian** air force.

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Americas

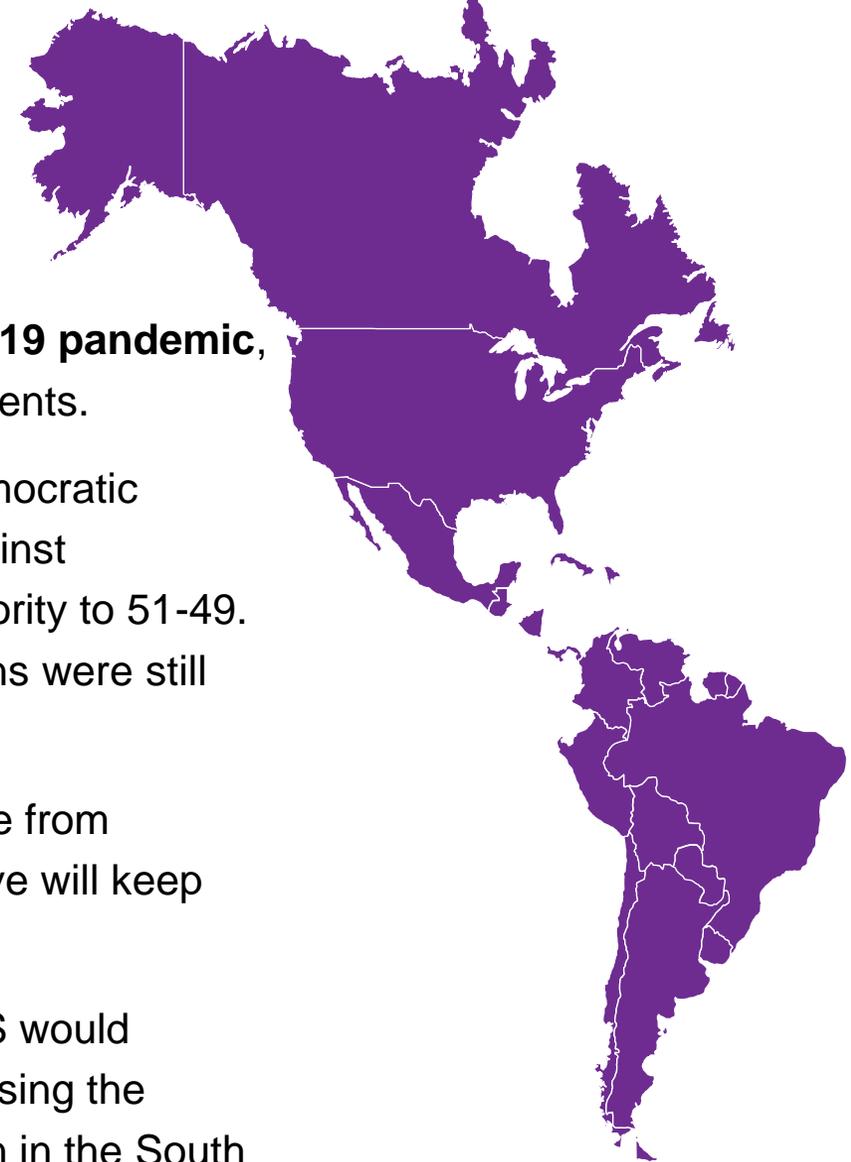
- Residents of an Andean community in **Peru** broke into Hochschild Mining Plc's Inmaculada gold and silver mine, causing interruptions and attacking the vehicles with stones. Residents from the area last year demanded that the company close its mining operations.
- **Bolivia** will hold its first census in more than a decade in 2024, scheduling it a year later than demanded by the opposition., The largest city of Santa Cruz, a relatively wealthy farming hub and opposition bastion, has ground to a halt in recent days amid a general strike demanding that the census be held next year, before elections due in 2025.
- Tens of thousands protest on Sunday in **Mexico** against President Andres Manuel Lopez Obrador's plan to overhaul the country's electoral commission INE in what they fear would concentrate power in the hands of the government.



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Americas: US

- The US will keep in place the public health emergency status of the **COVID-19 pandemic**, allowing millions of Americans to still receive free tests, vaccines and treatments.
- Democrats will hold onto control of the US Senate, winning 50 seats. If Democratic Senator Raphael Warnock win the December 6 Georgia runoff **election** against Republican challenger Herschel Walker, that would expand Democrats' majority to 51-49. Republicans are on track to control the House of Representatives, but returns were still flowing in for several races, including many in liberal-leaning California.
- Morgan Stanley analysts assessed that the US might make a narrow escape from **recession** due to a **resilient job market**, predicting that the Federal Reserve will keep rates high in 2023 as **inflation** remains strong after peaking in Q4 this year.
- Addressing the East Asia Summit in Cambodia, President Biden said the US would compete with **China** and speak out over its human rights record, while stressing the importance of peace in the Taiwan Strait and ensuring freedom of navigation in the South China Sea.



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US and China: The Great Decoupling

One of the most consequential trends of the 21st century is gaining steam – the great decoupling of US and Chinese economies.

The decoupling is not the result of one policy decision in Washington or in Beijing, but a consequence of a confluence of disparate policies that have changed the risk/reward equation for governments and multinational companies within the context of a rapidly changing geostrategic environment. When asked, Chinese and American policymakers insist that economic decoupling is not a policy goal, nor even desirable. And yet, the trend is gaining momentum and will impact global trade. How did we get here?

Growing US Concerns over Chinese Trade Practices and Authoritarian Policies

The US has long viewed China as a lucrative trading partner, given the size of its economy and developing consumer base. Desire to increase trade, however, has been tempered by concerns over what the US perceives as unfair trade practice by China, including heavily subsidizing domestic companies, manipulating currency levels to obtain price advantages in foreign economies, dubious practices

around the transfer of intellectual property and dumping of goods, to name just a few concerns. Early US efforts to use the international system to push back against Beijing's trade practices has given way to more coercive methods of tariffs, sanctions and enforcement actions. Over the past two decades, the more benign view of China as a competitor shifted to that of strategic rival and now the pacing national security challenge. The change in the US threat perception has been driven by China's militarization of disputed islands and broader military buildup, espionage, different understandings of international trade rules, increasingly authoritarian domestic politics, and encroachment on Hong Kong and Taiwan.

As the US threat perception of Beijing shifted, Washington began to adopt policies to limit US vulnerabilities to China. The most prominent area is in the technology sector. Carnegie Endowment scholar Jon Bateman, in his [new study](#), describes the emergence of techno-nationalism, encompassing steps the US has begun

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to take to protect its technology edge from Beijing's organized exploitation of its technological links with the West. Bateman concludes that *“Washington finally realized what other governments already understood: technology had become a key arena of interstate competition that could not simply be left to the marketplace. US technology would need to be better protected from adversaries and more closely aligned with national strategy.”*

The US has adopted a number of defensive measures, such as mandating trusted supply chains for the Department of Defense, imposing export controls, restrictions on investment, and the denial of visas and regulatory licenses for Chinese businesses (such as Huawei). Recently, the US has focused on offensive measures to nurture America's own technological strength, such as increasing funding for research and development, particularly in the cutting-edge areas of AI and semiconductor technologies, while restricting Americans from investing in companies that are part of the Chinese Military Industrial complex.

Last month, the Biden administration announced [new export restrictions](#) aimed at hobbling China's ability to make advanced semiconductors. The US seeks to maintain US dominance over

“chokepoint” technologies in the global semiconductor technology supply chain, namely AI chip designs, electronic design automation software, semiconductor manufacturing equipment, and equipment components. These technologies are viewed as crucial to China's development of advance military weapons, surveillance technologies and digital security (biometric surveillance and decryption technologies). New rules also prohibit US citizens from working on key technology that is sold to China.

The new restrictions are a blunt instrument, a policy of actively strangling large segments of the Chinese technology industry. As Gregory Allen at the Center for Strategic and International Studies [observed](#), *“The Biden administration has essentially given up on trying to thread the needle between refusing to let US technology help China's military while promoting US-China commercial trade.”*

Chinese Government Policies Increase Risks of Doing Business

The 20th National Congress of the Chinese Communist Party (CCP), held in October, cemented Xi Jinping's control over the CCP and the state, making Xi the most powerful leader since Mao Zedong. Xi's vision for China, the “great rejuvenation of the Chinese nation,” has

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put the world's second largest economy on a collision course with the US. In his work report to the National Congress, Xi doubled down on aggressive policies aimed at reclaiming China's rightful place in the world. Xi warned of "high winds, choppy waters, or even dangerous storms" in the years ahead as he sets China's strategic direction.

While Xi's consolidation of power reinforces China's current trajectory and intensified great power competition, for international businesses, it likely signals increased risk of doing business in China as Xi prioritizes CCP control over the economy. Over the past few years, Beijing has intervened in the economy through regulatory actions designed to advance the CCP's "common prosperity" policies. Under the stated goals of curbing of illegal activity, guaranteeing national security, and protecting the people, Beijing cracked down on the technology industry, blocking IPOs, forcing breakup of "monopolies," and curbing the power of China's tech billionaires. Beijing placed firms in the telecoms, energy, transport, finance, and defense sectors under close cybersecurity scrutiny to protect what is described as "critical information infrastructure," meaning that business' proprietary data is accessible by the state.

Beijing decimated the private tutorial sector by forcing firms to become non-profits.

Xi has abandoned past efforts to "open up" the Chinese economy and is now focused on creating a dual circulating economy, less vulnerable to external impacts, driven by newly developed domestic consumer demand. State owned enterprises have a renewed importance, and foreign investment, while welcome, will not be permitted to set market conditions.

The global pandemic has served to sharpen the risks of doing business in China. Lockdowns during the first year of the pandemic exposed supply chain vulnerabilities. But more to the point, the unrelenting Zero-COVID policy has exposed the extent of CCP control over the economy and the complete lack of recourse for international businesses with operations in China.

Foreign investors are nervous about their exposure in China. Since the conclusion of the party congress, foreign investors using the stock connect scheme have dumped about \$7 billion of mainland Shanghai- and Shenzhen-listed shares, according to *Financial Times* analysis. Sentiment about operating in China among US businesses

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has plummeted to a new low, according to an [August poll](#) by US-China Business Council. This year, 21 percent of respondents said they were pessimistic or somewhat pessimistic about their five-year business outlook in China, compared with 9 percent last year. European business confidence is also dropping, per the European Chamber of Commerce. Concerns focus on continuing Zero-COVID policy, erratic policy shifts and increased politicization of business. A [survey](#) of more than 100 companies by the Berlin-based Merics think tank found an increase in the number of companies reporting pressure from the Chinese government to align themselves with the Chinese government's positions and goals, or face boycotts.

There are growing reports of foreign companies deciding to exit China, on one extreme, but more prevalent, companies diversifying their supply chains by setting up factories in other locations within Asia or onshoring at home, to pausing new investments while assessing the new state of play. Firms exiting or diversifying away from China are not just in the tech sector, indicating a broader trend among industry. In January 2022, a UBS survey of C-suite executives revealed the magnitude of this shift. More than 90

percent of those surveyed said they either were in the process of moving production out of China or had plans to do so.

The Ukraine War and Risks of Dependency

Russia's invasion of Ukraine and the resulting European energy crisis has highlighted the political and security risks of economic dependency. When the European security strategy included Russia inside the tent, European leaders were mostly comfortable with entwined economies because of the belief that interdependence was a bulwark against armed conflict. The Baltic states and Poland shared a different threat perception on Russia and were early adopters of diversification plans. Germany, however, clung to Nordstream 2 pipeline, even after intelligence assessments judged President Putin had decided to absorb Ukraine.

Russia's behavior transformed European thinking about economic dependency writ large, per the [2022 annual report](#) on Dependence in Europe's Relations with China by the European Think-tank Network on China. The US has been trying to sway Europe to Washington's view on China as a rising threat, with only limited success prior to

US and China: The Great Decoupling

2021. European leaders unenthusiastically yielded to Washington's pressure on removing Huawei from the European communications backbone with the transition to 5G technology, not sharing the threat perception on Chinese technical collection and surveillance operations. Prior to the Ukraine war, European leaders tended to think about Washington's warning on China in the context of the US-Chinese trade war, involvement in best to be avoided. However, Lithuania, Denmark and Finland were exceptions, each highly focused on security and dependency, with concerns about Chinese coercive trade and surveillance practices.

The fate of the EU-China Comprehensive Agreement on Investment exemplifies the change in European thinking. Drafted in 2020, EU leaders framed the agreement as a win for trade diplomacy, locking in commitments from China on trade practices, including rules against the forced transfer of technologies, obligations for the behavior of state-owned enterprises, and comprehensive transparency rules for subsidies). Lithuania's objections were considered outliers. By the time of the April 2022 EU-China trade summit, the EU had suspended ratification talks. At the summit, the EU's agenda focused on swaying China to condemn Russia's

invasion of Ukraine and not on moving forward on the investment agreement. By then, the EU was imposing trade sanctions on China and encouraging member states to limit Chinese investments in critical infrastructure and industries.

The Way Ahead

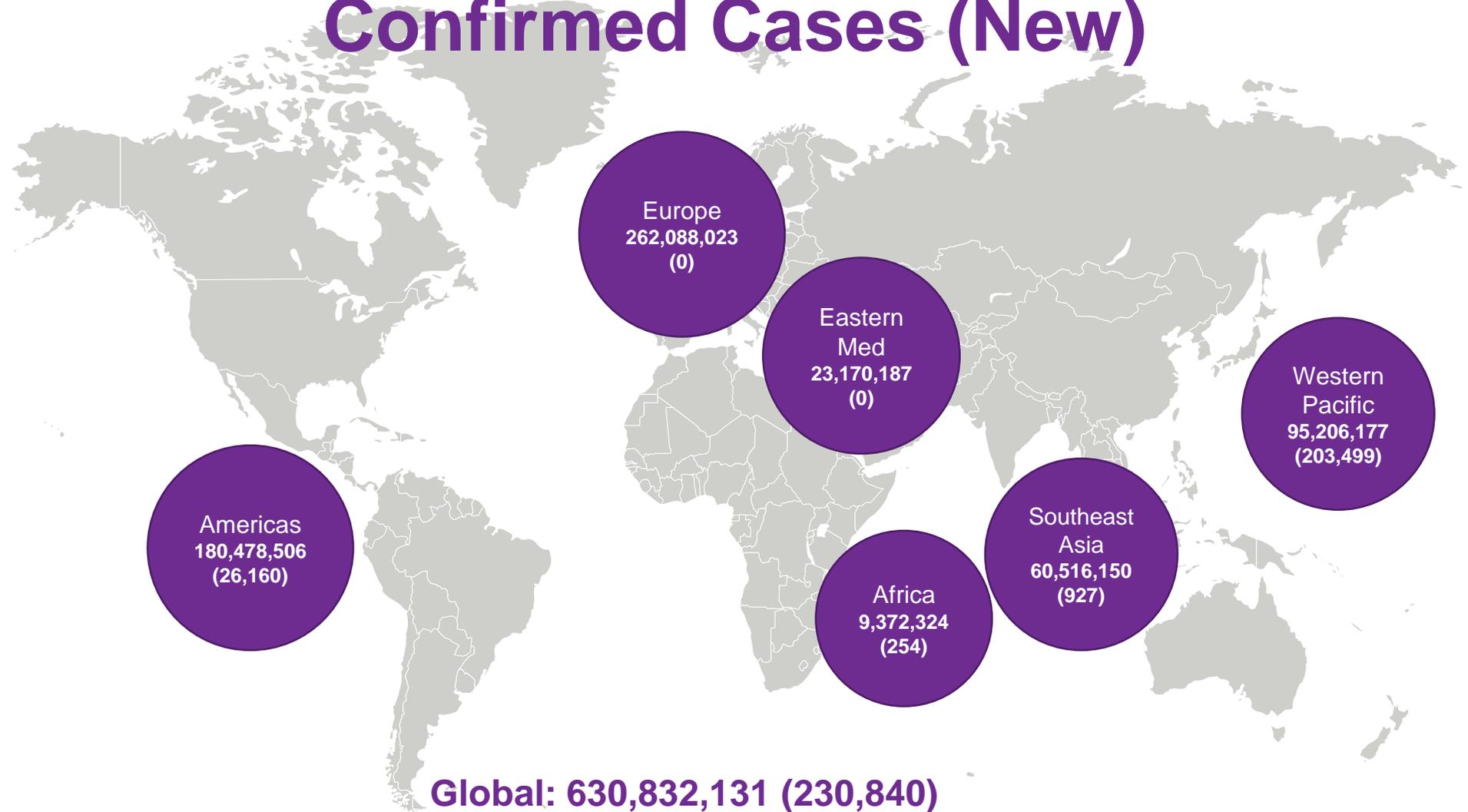
Businesses face increased risks as governments adopt economic policy tools to achieve broader political and geopolitical goals, in this new context of geoeconomics. Russia's war on Ukraine demonstrated how quickly the business environment can shift, forcing hundreds of companies to exit Russia and write down their losses. US and European trading relations with China are far deeper than with Russia. The move to limit dependency, or decoupling, is likely to play out much more slowly, but it will have its shocks, as the Biden Administration's hard-hitting ban on the export to China of advanced semiconductors has shown. Just as countries are beginning to map out economic dependencies, businesses need to assess their exposure to geoeconomics in the short to medium term to be positioned to minimize the risks and identify new opportunities as trading blocs realign to track with geostrategic shifts.

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Coronavirus Condition Updates

As of 5:01 pm CEST on November 11, 2022

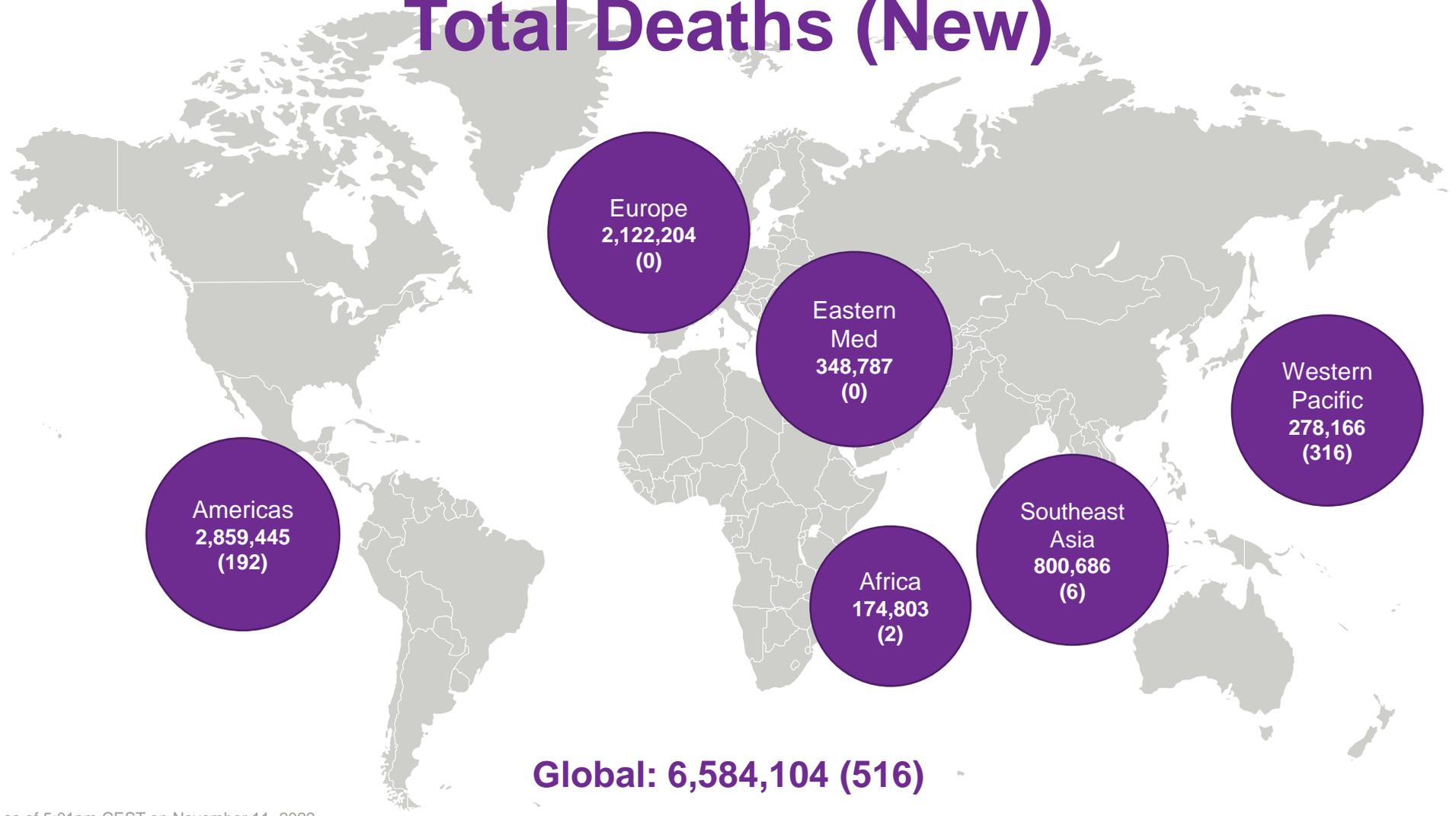
Confirmed Cases (New)



Reflects data as of 5:01pm CEST on November 11, 2022.
Data Source: World Health Organization

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Total Deaths (New)



Reflects data as of 5:01pm CEST on November 11, 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.

Karl Hopkins

Partner and Global Chief Security Officer
Dentons
Washington, DC

D +1 202 408 9225
karl.hopkins@dentons.com

Melissa Mahle

Senior Analyst
Dentons
Washington, DC

D +1 202 408 6383
melissa.mahle@dentons.com