

Dentons Flashpoint

Global Situation Report

October 5, 2022

Global Situation Update: October 5, 2022

KEY TAKEAWAYS

US and NATO report no indications that Russia is preparing to use nuclear weapons.

The EU agrees to new sanctions on Russia, including price cap on oil.

Eurozone producer prices rose in August at the fastest pace since records began in 1981.

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WHAT WE'RE WATCHING

Bulgaria, the poorest member of the European Union, is trying to form a coalition government after snap elections were held for the fourth time in 18 months this past weekend. The ruling center-right political party GERB won the most votes and is likely to partner with its allies: the Movement for Rights and Freedoms and the ultranationalist, pro-Russia Revival party.

Soaring energy costs are a central political issue for Bulgaria, with its gas supply cut off by Russia in April. This week, the Bulgarian president refused to sign a memorandum for Ukraine to join NATO with the argument that the country is presently at war. A new government could bring back a more neutral policy toward Russia, although there are also a significant number of pro-EU, pro-NATO lawmakers in Bulgaria.



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

Global

The EU has approved new sanctions against Russia, including a price cap on Russian crude oil and refined products. The oil cap is meant to have an extraterritorial dimension because once implemented, it will affect international trade beyond the EU and the G7 borders.

- The US and NATO have no indication that Russia is preparing to use **nuclear weapons**, despite "*nuclear saber-rattling*" by Russian President Vladimir Putin.
- Russian President Putin moved to finalize the **illegal annexation of occupied Ukrainian territory**, signing into Russian law annexation of Donetsk, Luhansk, Kherson and Zaporizhzhia, designating them as parts of Russia.
- EU finance ministers agreed to integrate the EU's **support payments to Ukraine** into its 2023 budget to make disbursements more structured and predictable. The move is likely to further tighten links between the 27-nation bloc and EU candidate Ukraine.
- The World Bank assessed countries in eastern Europe and Central Asia will return to **weak growth** in 2023 but warned that a cut-off of Russian energy to the EU would tip them into **recession** next year.
- OPEC+ looks set for deep cuts to its **oil output** targets when it meets today, **curbing supply** in an already tight market despite pressure from the US and major consumers to pump more.

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Markets & Business

Chipmaker Micron Technology plans to invest up to \$100 billion over the next 20-plus years to build a computer chip factory complex in upstate New York, in a bid to boost domestic chip manufacturing.

- **Naver**, South Korea's biggest internet company and ecommerce platform, has agreed to buy **Poshmark**, a clothing resale platform, for \$1.6 billion to make inroads into the fast-growing US second-hand online fashion market.
- **HSBC** is considering selling its business in Canada, worth \$9 billion and one of the biggest international banking brands in the country, as it looks to shore up its financial standing.
- Chip maker **Nvidia Corp.** has ceased operations and close its offices in Russia, saying it could no longer operate effectively in the country because of recent events related to the invasion in Ukraine.
- **China Petroleum and Chemical Corp**, the world's biggest oil refiner by capacity, plans to de-list its American Depositary Shares trading on the London Stock Exchange.

Environment, Sustainability & Governance

African countries will use the COP27 climate talks in Egypt next month to advocate for a common energy position that pushes for fossil fuel investment as necessary to expanding economies and electricity access, the continent's top energy official said.

- Nestle said it spend more than 1 billion Swiss francs (\$1 billion) by 2030 on efforts to **source coffee sustainably**, more than double its previous pledge.
- EU countries agreed on an alternative to an EU plan to use a carbon market reserve to help finance their exit from Russian gas, after fears the original proposal would undermine the bloc's main climate change policy.
- Bank of America announced plans to deposit an additional \$100 million into banks that focus on **minority communities**.
- The White House proposed a non-binding **Artificial Intelligence (AI) Bill of Rights** that it said would help parents, patients and workers avert harm from the increasing use of automation in education, health care and employment.

Africa

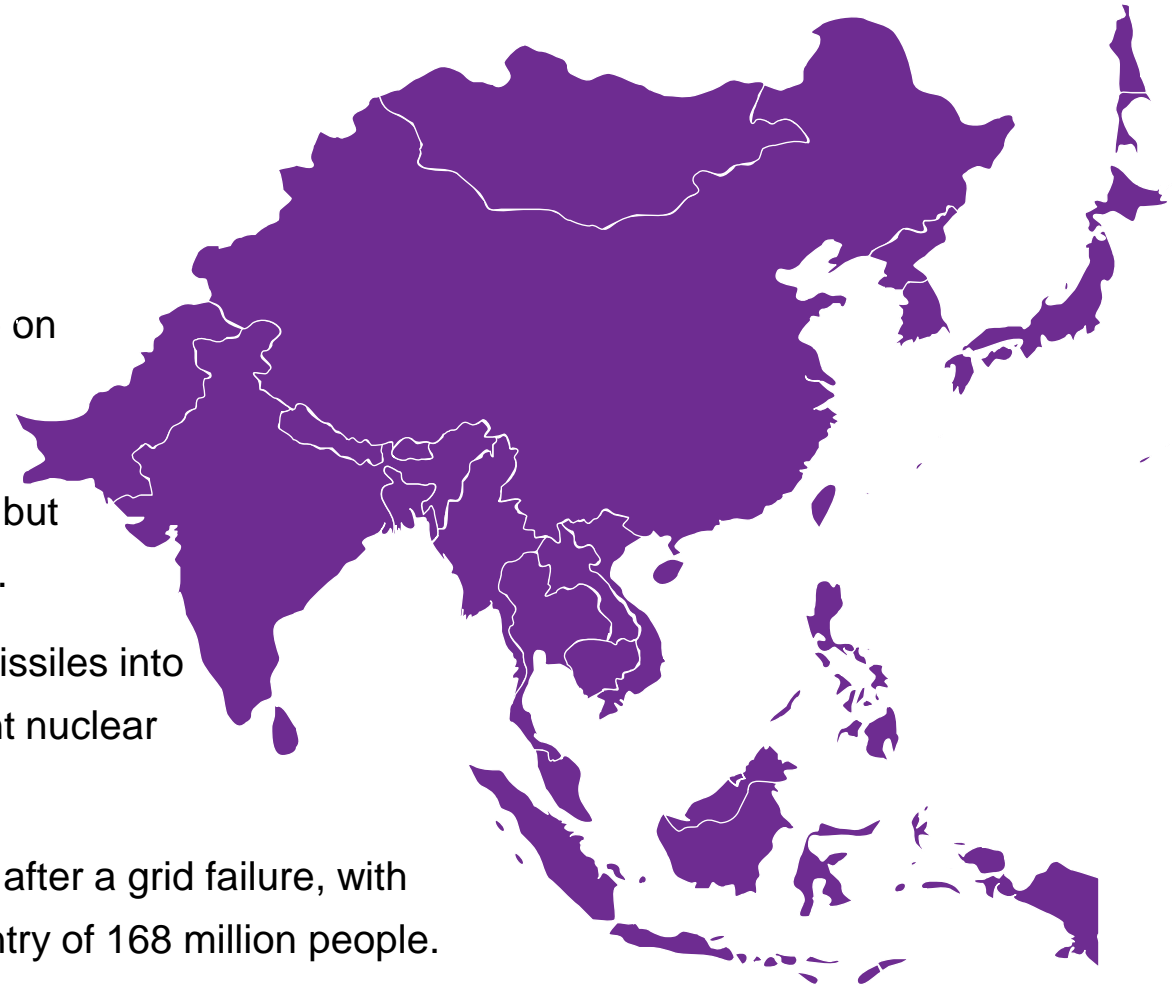
- Over 20 were killed in car bomb attacks in Mogadishu, **Somalia**, including three senior government officials.
- **Sudanese** pro-democracy groups – including those sidelined by current negotiations – asked the country’s UN mission to help them integrate a paramilitary force and former rebel factions into a unified army, or disarm and demobilize them.
- **Burkina Faso’s** new junta leader pledged that 2024 elections will still go on; the democratic transition timeline has already been criticized as too long by the international community. The Sahel-based branch of Al Qaeda, JNIM, claimed an attack on a convoy in Burkina Faso that killed over a dozen soldiers last month.
- **Uganda’s** President Museveni removed his son as commander of Uganda's land forces after he repeatedly threatened on Twitter to invade neighboring Kenya.
- **Kenya** lifted a ban on genetically modified crops in response the worst drought to affect the East African region in 40 years.



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Asia

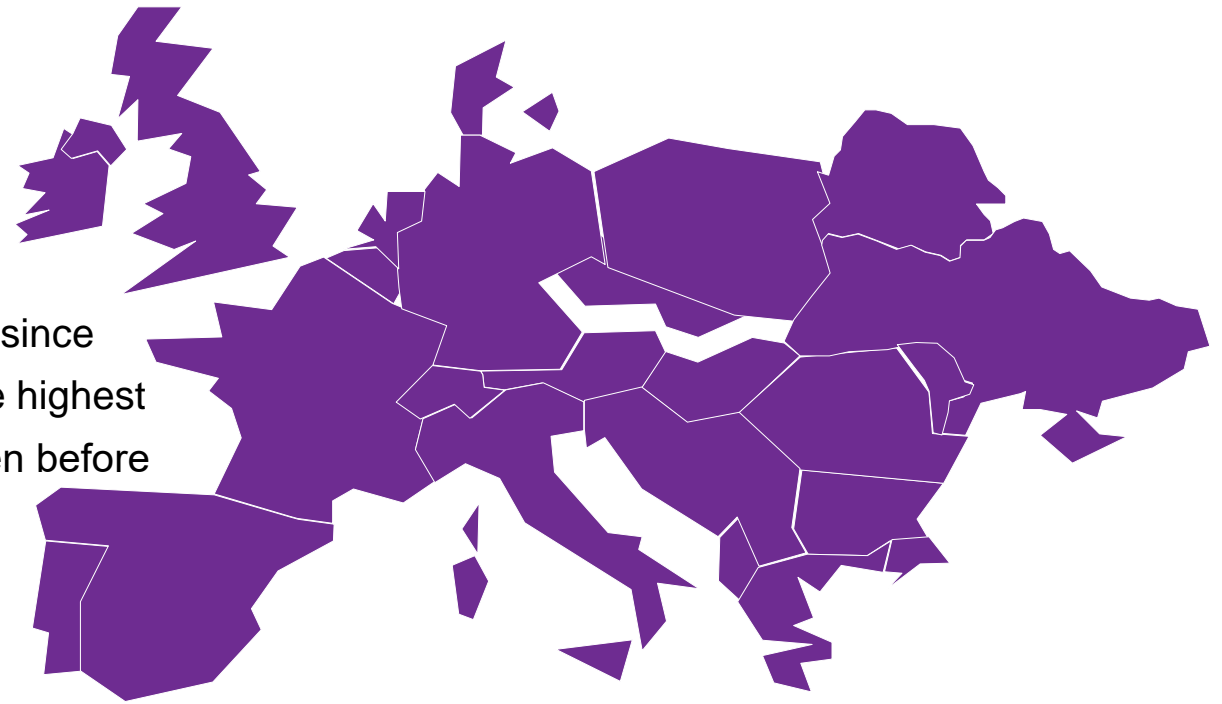
- **North Korea** test-fired a ballistic missile farther than ever before on Tuesday, sending it soaring over **Japan** for the first time in five years and prompting a warning for residents there to take cover. The **US** asked the UN Security Council to meet on North Korea, but **China and Russia** opposed a public discussion by the UN body.
- **South Korea** and the **US** military fired four surface-to-surface missiles into the sea off of the east coast in response to **North Korea's** recent nuclear provocation
- Large areas of **Bangladesh** were without electricity on Tuesday after a grid failure, with authorities working to gradually restore power supply in the country of 168 million people.
- **Japan** ordered a Russian consul in Sapporo to leave the country by October 10 in retaliation for the expulsion of a Japanese consul in Vladivostok last month.



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Europe

- Eurozone producer prices rose in August at the fastest pace since records began in 1981. Eurozone mortgage costs rose to the highest level in seven years and squeezed households' finances even before interest rates from the central bank took hold.
- **Iranian**-made Shahed-136 drones have bombarded a city near **Ukraine's** capital of Kyiv, leaving one person injured. The Kyiv region had largely been removed from fighting in recent weeks as Ukraine's army stepped up its counteroffensive in the east and south.
- **Russia's** armed forces are retreating from the front lines in southern **Ukraine** after losing significant swaths of territory in recent days, a Moscow-appointed official said. **US** officials warned that Ukraine faces a critical battle to reclaim territory in the south as winter looms if it is to deny Russia a chance to solidify its hold on the region.
- Long time **Bosnia** leader Bakir Izetbegović lost out in his bid for the country's three-person presidency to a moderate opponent, after a general election that otherwise maintained entrenched divisions between the Balkan state's three main ethnic groups.



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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](#).

Middle East



- **France's** foreign minister said that the EU is looking to impose asset freezes and travel bans on a number of **Iranian** officials involved in the crackdown on protesters.
- **Tunisia's** powerful UGTT labor union said it will lead street protests over any "*painful*" changes ahead of Tunisia's talks with the IMF for a rescue package.
- Lawyers to **Saudi Arabia's** Crown Prince Mohammed bin Salman argued that he holds sovereign immunity in a **US** lawsuit regarding the killing of journalist Jamal Khashoggi, following the prince's appointment as prime minister last week.
- Depositors, some armed, stormed **Lebanese** banks to access savings limited by withdrawal caps amid the country's financial crisis. Cynthia Zarazir, a first-time parliamentarian who was elected in May to represent Beirut, joined the public protest and entered a branch of Byblos Bank north of Beirut, unarmed and demanding \$8,500 in cash.

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Americas

- **Mexican** President Obrador denied his administration spied on journalists or opponents following a report that the phones of at least three people investigating human rights abuses were infected with Pegasus spyware.
- **Colombia's** government and left-wing National Liberation Army rebel group announced plans to reestablish peace talks next month; previous talks were called off in 2019 after the ELN refused to halt hostilities.
- The WHO will also request a supply of oral cholera vaccines to increase efforts to combat a disease that has unexpectedly returned to **Haiti**.
- An estimated 109,000 homes and businesses were still without power in **Puerto Rico** on Tuesday, two weeks after Hurricane Fiona.



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Americas: US

- US **job openings** fell by the most in nearly two and a half years in August, suggesting that the labor market was starting to cool as the economy faces headwinds from higher interest rates.
- The Biden administration is preparing new export controls on semiconductors and the machines to make them, the latest push in its effort to deny **China** the ability to make the fastest, most cutting-edge circuitry possible, according to people familiar with the situation.
- US President Biden advised **Ukrainian** President Zelensky yesterday that the US will send \$625 million in new weapons from US stockpiles, including HIMARS, artillery systems and ammunition, and armored vehicles.



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The Future of Money: Beijing's Plans to Decouple from the Dollar

As part of China's drive for superpower status, Beijing is adopting a long-term initiative to internationalize the yuan and end its dependency on the US dollar.

Beijing feels both vulnerable to Washington's parochial management of monetary policy and its use of economic power as a coercive tool of state with global dependence on the dollar. China is critical of "US mismanagement" of monetary policy, with the rapid expansion of the Federal Reserve balance sheet and unrestrained monetary expansion in response to the global pandemic. American fiscal policy was undertaken to protect US economic interests, without regard -- in China's view -- of protecting the stability and legitimacy of the dollar as the world's principle reserve currency. China also feels vulnerable to "weaponization" of the dollar, with the US frequently using sanctions to punish countries' economies over political differences. US economic sanctions on Russia have sharpened China's focus on this risk and implications for future reunification with Taiwan, if done by military force.

A new study by economists Diana Choyleva and Dinny McMahon titled, "*China's Quest for Financial Self-Reliance: How Beijing*

Plans to Decouple from the Dollar-Based Global Trading and Financial System," (available [here](#)) provides insight into what they call the "great decoupling." The helpful study examines both the drivers of Chinese policy and Beijing's prospects for success in the next five years. They assess that China is not seeking to replace the US dollar as the world's reserve currency (or at least not yet). Nonetheless, China sees internationalization of the yuan as necessary for achieving a regional geopolitical sphere of influence as Beijing realizes its great power aspirations. China seeks to purchase what it needs from the rest of the world using yuan and their own payment system, thereby reducing its dependence on the dollar and achieving greater self-reliance. Within Asia, China wants the yuan to become a regional currency anchor. While assessing that the Chinese policy is seeing some successes, the two economists are pessimistic that China's goals are attainable in the next five years.

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Internationalizing the Yuan

China has made inroads over the past decade in easing overseas transactions in yuan and creating opportunities for foreigners to use the currency, according to Choyleva and McMahon. The share of yuan denominated trade rose significantly but by 2015, Beijing was forced to rethink its strategy. Foreign interest in the yuan proved to be too fleeting, focused on arbitrage opportunities arising from the difference between on shore and offshore yuan markets. Since 2017, China is focusing on giving foreigners reasons to use the yuan based on its merits as a medium of exchange, store of value, and unit of account, which are characteristics of a global reserve currency.

In order to establish a sustainable cycle of yuan flowing in and out of China, Beijing is seeking to expand trade denominated in yuan and increase opportunity for foreign investment into Chinese financial markets. Beijing is focused on developing the latter as part of President Xi's efforts to create domestic long term investment opportunities as a way to grow household wealth outside of housing investments. Beijing is also experimenting with a cross border payment system using the digital yuan. Choyleva assessed that the Chinese Communist Party supports development of the digital yuan

because it will ease capital inflows while keeping domestic savings under tight control within Beijing's sphere of influence.

However, the prominent economists also assess that there are structural barriers that stand in the way of foreigners embracing the yuan. The dollar is cheaper than the yuan to obtain globally because of the huge pools of dollars available outside of the US. With yuan-denominated trade more expensive, Beijing must find other incentives to convince foreigners to use the yuan. Without increasing demand, yuan-denominated transactions will remain more expensive - a catch-22.

Stimulating Demand for the Yuan

China already requires most investments into its financial markets be made in yuan sourced from outside of China. Investors (for the most part) cannot bring in dollars and exchange them for yuan inside China. This helps create foreign demand for the yuan, but not enough. The Chinese Central Bank is targeting four areas to stimulate cross border trade in yuan: commodities, industrial/processed goods, supply chains and ecommerce.

Beijing wants to make China the place where global commodities prices are determined. Most commodities futures markets are in the

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US or UK, which is where benchmark prices are set, with prices in US dollars. China believes having the markets in the US and UK distorts prices because China is by far the world's single biggest consumer of commodities. McMahon, however, sees problems with this because Chinese commodities markets are dominated by day traders and thus are very volatile, which does not lend to becoming the marketplace to set global prices. Undeterred, China is focusing on metals and resources that are important to emerging industries and do not currently have well-developed futures markets against which Beijing would have to compete. Most markets have been established through commercial demand, but some have been shaped by politics, namely oil. China is seeking to exploit geopolitical conditions to convince oil supplies to price oil in yuan and has had recent success with Russia's Gazprom accepting payment in yuan for LNG shipments. However, McMahon assesses that it will require radical changes to China's domestic futures markets and will take time for this strategy to work, but it is an area for potential change.

China is focused on integrating regional trade through the Regional Comprehensive Economic Partnership (RCEP) – an Asian free trade agreement -- with an eye to making China an anchor of demand for Asian supply chains and to have Asian countries price their goods in

yuan. In supply chain pricing, the currency is set by the end user. China is a regional transit point in the supply chain, using inputs from Asian suppliers, with finished products exported to the end consumer. For the most part, invoices and settlement currency in Asia is in US dollars. For the yuan to be used more, China's economy must consume more of what Asian countries produce. Boosting household consumption is part of China's common prosperity drive but will take time.

China also seeks to use ecommerce to expand the use of yuan. Cross border ecommerce has grown exponentially and is expected to continue to grow. Unlike traditional global trade, the buyer typically pays in their own currency in ecommerce transactions. China sees its consumer purchases as having large potential of increasing the flow of yuan from China, building the pool of yuan reserves overseas.

China initially hoped that investment in Belt & Road Initiative (BRI) countries would stimulate loan payments in yuan. This has not materialized as most debt is being paid in dollars. Beijing is not focused on creating "industrial capacity cooperation" with BRI countries. Instead, Beijing hopes to use Chinese capital to build

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factories in BRI countries that will produce goods that will be sold to China, with the good priced and settled in yuan. There are also opportunities to move polluting industries to countries with lower environmental standards, or water and land intensive industries to countries with relative more abundance in these resources. McMahon observed that “virtuous trade circles” are beginning to emerge between China and Russia because of sanctions, as more Russian producers are buying inputs from China, such as a Russian gas extraction company in the Arctic, and selling the product back to China, priced in yuan.

Barriers to Success

Choyleva and McMahon are pessimistic that China will be able to succeed with its plans to have the yuan accepted as an international currency, at least in the next five years, because of significant and perhaps insurmountable barriers. Beijing is basing the demand growth model on increasing domestic consumer demand at a time that China's population is rapidly aging and starting to shrink, likely to create headwinds against continued robust economic growth. The Chinese Communist Party may stand in the way of economic reform that encourages the development of free markets, preferring to protect state control over the interests of foreigners and investors.

Geopolitically, Asian countries may resist being pulled into a Chinese sphere of influence and resist adopting the yuan as a regional currency, which could make them vulnerable to Chinese pressure and meddling.

Implications for Businesses

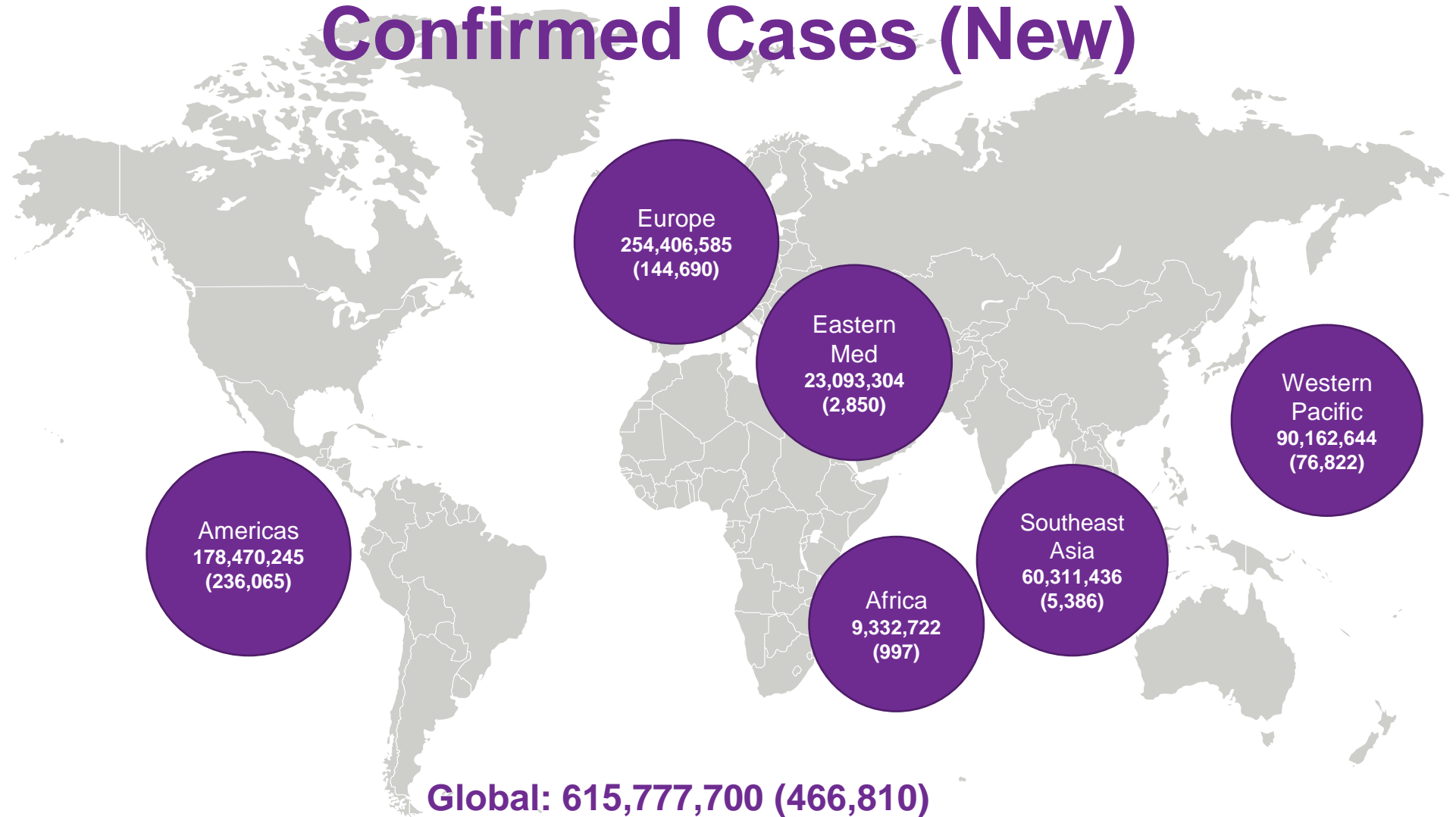
For multinational companies, the global economy is changing and will impact how and where companies decide to grow their business. The growing geopolitical tensions between Western countries and Russia over the war in Ukraine have already impacted commerce, with an unforeseen mass exit of businesses from Russia and rerouting of Russian energy supplies from Europe to Asia and American LNG from Asia to Europe. The longer the war goes on, the more permanent these market shifts will be. Yuan-denominated transactions are increasing, for political reasons. These developments, however, do not mean that the yuan's status will be propelled as an international reserve currency. Russia, in its isolation, may gravitate to the yuan as an economic lifeline, but the rest of Central Asia and the Indo-Pacific will conduct trade in currencies that make economic sense to them. Today, the dollar will remain king for most of the world.

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Coronavirus Condition Updates

As of 4:59 pm CEST on October 4, 2022

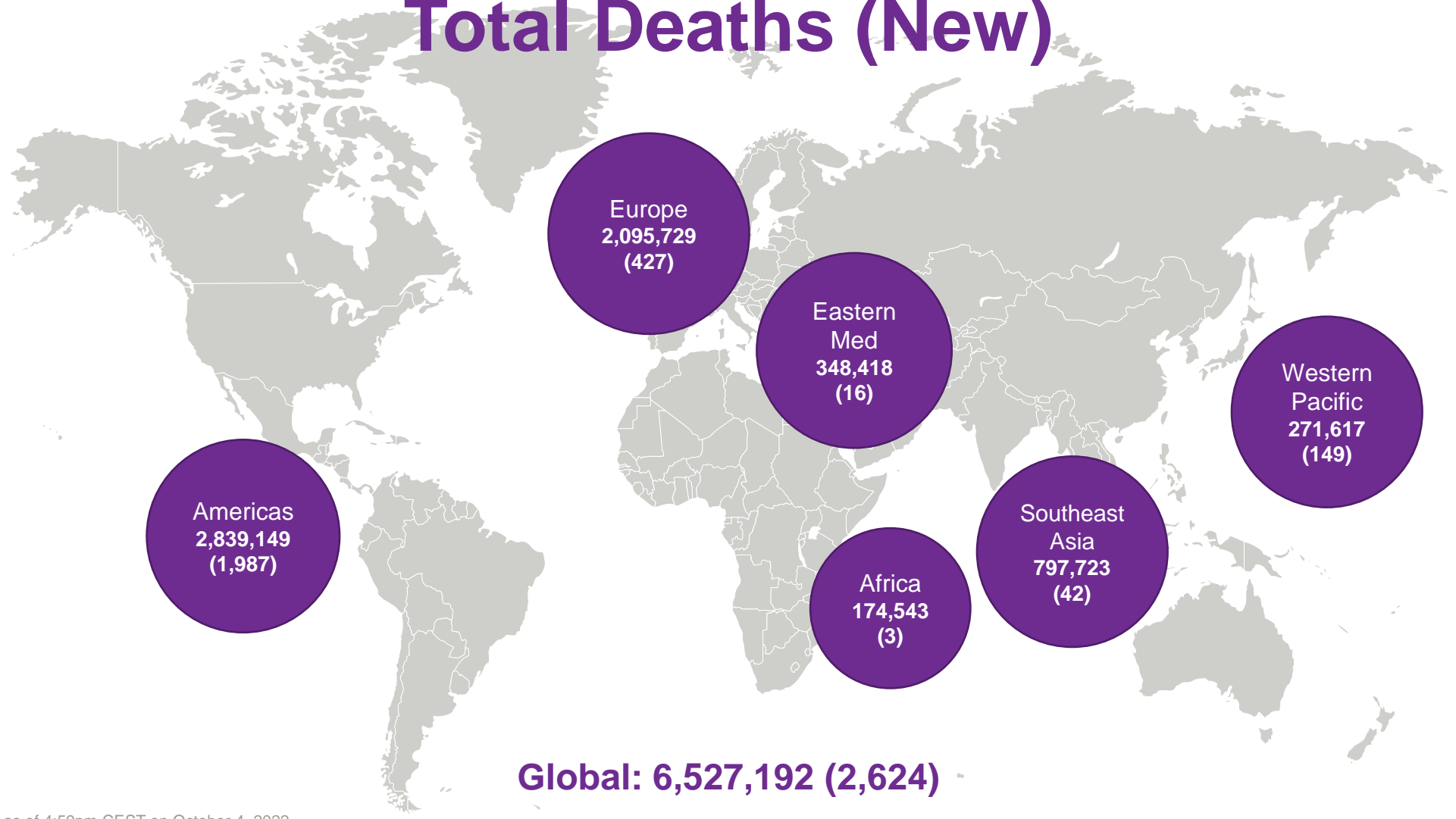
Confirmed Cases (New)



Reflects data as of 4:59pm CEST on October 4, 2022.
Data Source: World Health Organization

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Total Deaths (New)



Reflects data as of 4:59pm CEST on October 4, 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.

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