

Dentons Flashpoint

Global Situation Report

January 18, 2023

Global Situation Update: January 18, 2023

KEY TAKEAWAYS

The IMF forecasts improvement in the global economy in the second half of the year and into 2024.

Russia announces ambitious military reforms and expansion of conventional forces.

A national strike disrupts train, air traffic and subway services in France.

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WHAT WE'RE WATCHING

The Congolese wing of Islamic State aims to boost its profile with other jihadists operating across central and east Africa after its recent attack against a church that killed 15 people and injured more than 25. They will increasingly target churches and Christian religious leaders in Congo to undermine social cohesion and attract recruits to its lawless realm from disaffected Muslim communities in nearby Uganda and Kenya.

Over the coming years, Islamic State's Central Africa Province will increase its capabilities exacerbating already elevated pressures on the Congolese security apparatus. Meanwhile, joint military operations between Congo and Uganda against them will face mounting disruption amid concerns among Congolese politicians over Uganda's links to the March 23 (M23) rebel movement in eastern Congo.



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Global

At Davos, IMF Deputy Managing Director Gopinath signaled that the fund would upgrade its economic forecasts. now assessing an “improvement” in the global economy in the second half of the year and into 2024. Other business leaders are less optimistic, worried about high inflation and risks of future interest rate hikes.

- Prospects for delivery of German-made **Leopard battle tanks** to Ukraine improved this week with the naming of new German Defense Minister Boris Pistorius. The **Ukrainian** government has long pressed for acquisition of modern battle tanks in order to reclaim territory occupied by Russia. Germany lifting its objections could be one of the most consequential shifts in western aid so far.
- Representatives of more than 50 countries supporting **Ukraine** will gather in Ramstein, Germany, this week to discuss supplies to Ukraine. The US-led Contact Group includes all countries in NATO and key allies offering lethal and nonlethal aid.
- **Russia** announced plans to make "major changes" to its **armed forces** from 2023 to 2026, seeking to shake up its military structure after months of setbacks on the battlefield in Ukraine. Russian officials have portrayed the military buildup and the Ukraine war as part of a direct confrontation with NATO. President Putin is expected to announce another mobilization of forces for Ukraine.
- The **World Economic Forum's** annual meeting kicked off yesterday, with geopolitics, economic competition, technology developments and the wide-ranging impacts of climate change on the agenda. Russian officials are notably absent from the gathering, another indicator of Moscow's isolation by the global political and business elite.

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Markets & Business

China's rapid reopening of its economy should help oil demand rise to a record level this year, with the International Energy Agency forecasting oil demand growth by nearly 200,000 barrels a day to 1.9 million barrels a day.

- **Microsoft Corp** plans to cut thousands of jobs with some roles expected to be eliminated in human resources and engineering divisions.
- Global accounting firm **PwC** resigned as Chinese property developer **Evergrande's** auditor, with the latter citing different views on financial statements under investigation by Hong Kong regulators.
- British legislators are poised to adopt an extensive new social-media bill that could see CEOs of major **tech firms** held criminally liable if they do not protect children from certain content online.
- France's **TotalEnergies** said it expected to take a \$2.1 billion windfall tax bill in the UK and EU on its earnings for 2022, with half the bill coming from Britain. The group said in December it would cut its North Sea investments for 2023 by a quarter, or £100 million, as a result of the taxes.
- **Wintershall Dea**, one of the main European investors in the Nord Stream 2 gas pipeline, plans to exit Russia following criticism over its continued exploration and production of gas and oil in the country after the invasion of Ukraine.

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Environment, Sustainability & Governance

ESG fund industry groups told the EU's market watchdog that it should not codify ESG definitions into law, saying it would complicate a sector that is "constantly in flux."

- Danone, one of the world's biggest dairy companies, announced plans to cut **methane emissions** from its fresh milk supply chain by 30 percent by 2030.
- The US Federal Reserve told the six largest US banks to compile data on how their businesses would be impacted by "*a range of plausible future outcomes*" related to **climate change** by July 31.
- BlackRock lost around \$4 billion in assets under management as a result of a **political backlash against ESG** in the US, per its CEO.
- Most trains will be cancelled in France on Thursday, with flights also affected and Paris' subway heavily disrupted, as part of a **nationwide strike** against the government's plan to make people work longer before they can retire.

Africa

- **Ethiopia's** largest bank announced that it had resumed financial operations in some towns in the troubled Tigray region after a shutdown of more than a year.
- **Congolese** President Tshisekedi said the M23 rebel group had not fully withdrawn from areas it seized in the country's east, accusing the militia of faking an agreed pullback of its forces.
- Islamist fighters from al Shabaab stormed a military base in a part of central **Somalia** they were forced from last year, killing at least seven soldiers. A day earlier, Somalia's government-led forces announced they had captured an al Shabaab stronghold on the Indian Ocean coast, one of their most significant victories.
- Islamist militants kidnapped around 50 women searching for food in **Burkina Faso's** northern province.



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Asia

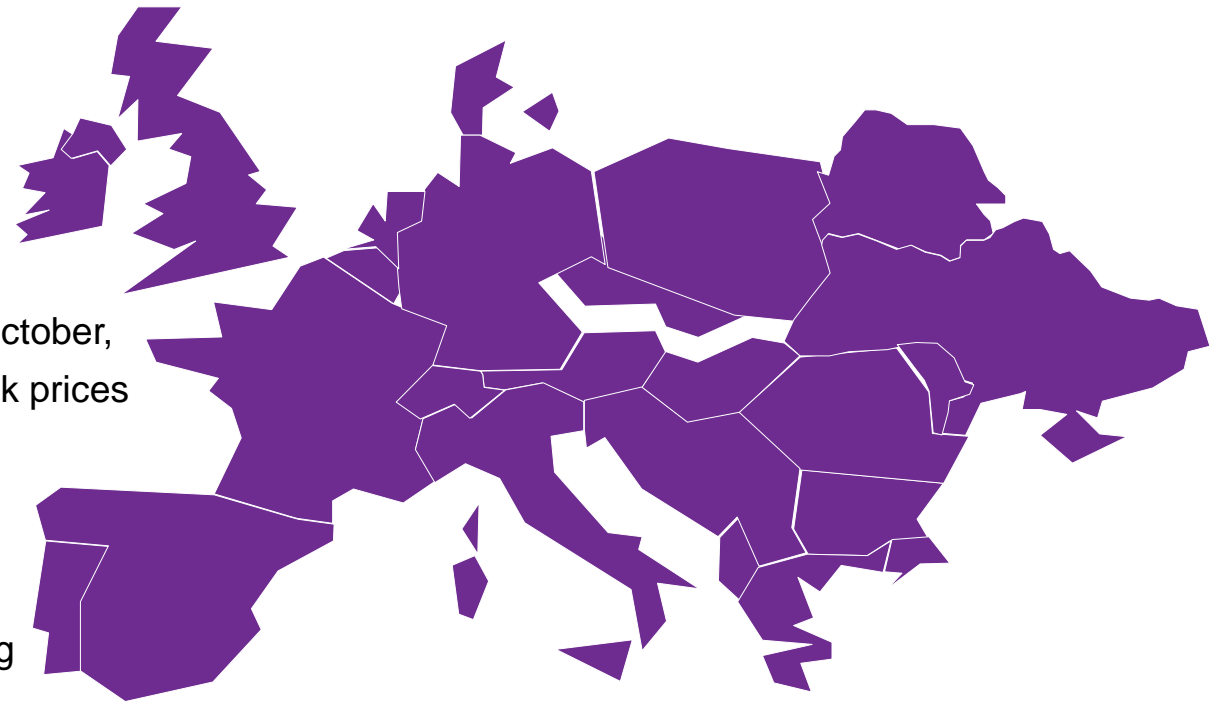
- **Vietnam** President Nguyen Xuan Phuc resigned after the ruling Communist Party blamed him for corruption by officials under his control, in a major escalation of the country's anti-graft campaign.
- With COVID-19 restrictions lifted, millions of urban workers across **China** began the heavy travel season for Lunar New Year celebrations, prompting concerns that the virus will next surge in rural areas with weaker public health infrastructure.
- **China's** population fell in 2022 for the first time in decades in a historic shift that is expected to have long-term consequences for the domestic and global economies as the country is a crucial source of labor and demand. **India** is expected to overtake China as the world's most populous country this year.
- **Australia** confirmed it will buy 40 Black Hawk military helicopters from the **US** for an estimated A\$2.8 billion (\$1.96 billion). Australia has been boosting its defense spending over the past few years as **China** looks to step up its presence in the Indo-Pacific region.



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Europe

- **British** inflation eased last month after hitting a 41-year high in October, but the pressure on households remains intense as food and drink prices rose at the fastest pace since 1977.
- **Kazakhstan** will no longer allow **Russian** citizens to stay in the Central Asian country indefinitely by doing so-called visa runs every three months. Tens of thousands of Russians, mostly young and middle-aged men, relocated to Kazakhstan last year to avoid conscription, with the Astana government attributing unusually large inflows contributed to surging inflation.
- Dutch Prime Minister Rutte cited some progress in talks over new restrictions the **US** wants the **Netherlands** to implement on exporting chip-making technology to **China**. The Netherlands is home to ASML Holding NV, a key maker of semiconductor manufacturing equipment for whom China accounted for 15 percent of its sales in 2021.
- The **EU** plans to level the playing field for clean-tech by offering subsidies and government investment to member states to help the EU compete with the **US**, which is offering significant tax break to US businesses through the Inflation Reduction Act. European leaders are concerned that “Buy American” provisions will lure European companies away from the EU and harm the continent’s clean-tech and manufacturing industries.



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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.

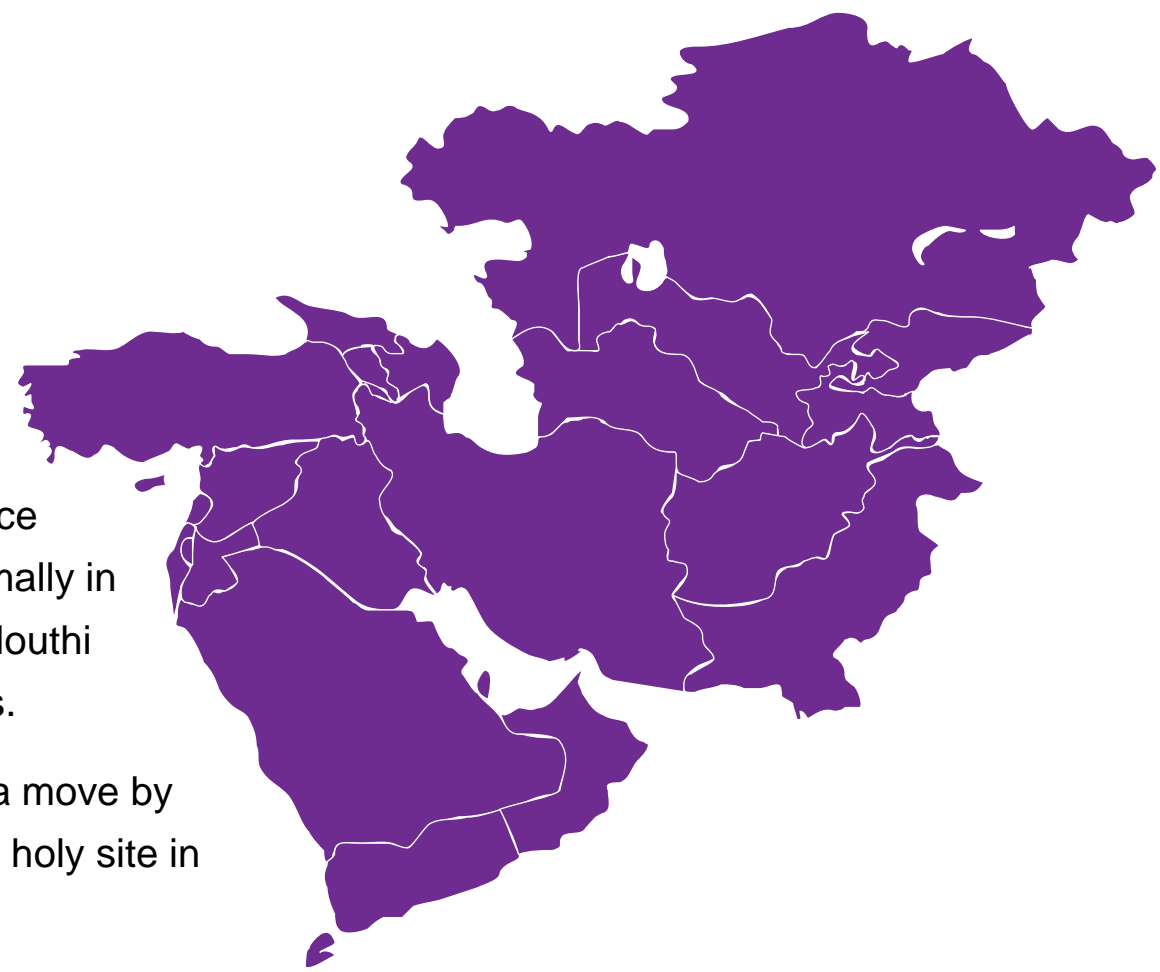
Dentons tabletop sessions are fluid, and designed to enhance preparedness with services, including:

- ❖ 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



- **Britain** vowed more reprisals against Tehran after it executed a UK-**Iranian** dual national.
- **Saudi Arabia** and **Yemen's** Houthis are reportedly restarting peace negotiations in backchannels; although a ceasefire remains informally in place, the most recent efforts to extend a truce were scuttled by Houthi demands. Saudi Arabia called on the UN to designate the Houthis.
- **Jordan** summoned the **Israeli** ambassador to Amman to protest a move by Israeli police to block the Jordanian envoy from entering a volatile holy site in Jerusalem.
- The former head of the presidential cabinet in **Tunisia** was sentenced in absentia to 14 months in prison in connection with audio recordings containing derogatory remarks towards President Kais Saied.
- At Davos, the **Saudi** Foreign minister said the Kingdom was trying to find a path to dialogue with **Iran** as the best way to resolve differences.

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Americas

- **Brazilian** President Luiz Inacio Lula da Silva has removed 40 troops guarding the presidential residence after expressing distrust in the military for failing to act against demonstrators that ransacked government buildings on Jan. 8.
- **Guatemala** accused **Colombian** Defense Minister Ivan Velasquez, who led a United Nations anti-corruption unit in the Central American country, of committing illegal acts.
- **Colombia** is looking to supplement a global deal setting minimum tax levels for multinationals with an additional accord among its fellow Latin American countries at Davos.
- Teachers, retirees and workers' unions marched in at least six **Venezuelan** cities to demand better salaries.
- **Colombia's** national police said they confiscated an arsenal of weapons, including guns, grenades and a machine gun belonging to dissidents from the now-disbanded FARC rebel group.



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Americas: US

- The Justice Department has asked an appeals court panel to reverse an April 2021 ruling that declared unlawful a government order requiring **masks** on airplanes, buses, trains, ridesharing services and at airports and other transportation hubs.
- The nine consecutive rainstorms that inundated California in succession since the end of December, killing at least 20 people and putting tens of thousands remained under evacuation orders, are finally ending, enabling the state to begin intensive clean up activities after the **extreme weather** event.
- The Transportation Security Administration discovered more than 6,500 **firearms** in carry-on bags in 2022, a new record.
- The US imposed sweeping new **export controls** on Macau, mirroring those previously imposed on shipments of advanced chips and chipmaking equipment to Beijing, to stop diversion of technology through Macau to the rest of **China**.



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The Future of Technology: Mainstreet in the Metaverse

By Matthew Gardell

Many industries ranging from tech companies to fashion houses are seeking to expand their presence in the metaverse. Labeled as a key technology of the future, the metaverse sector is expected to grow rapidly in the next year. Any company considering investing in the metaverse must carefully weigh the risks and benefits.

The metaverse is a collective virtual space usually accessed through a browser or headset. Long associated with the video game industry, the metaverse is now a cross-cutting concept that has attracted interest from a diverse set of industries. Many people are familiar that the parent company of Facebook changed its name to Meta Platforms Inc., signaling its intent to focus on building metaverse capabilities. In the next year, consumers will begin to see the metaverse in many different industries such as the real estate, automotive, retail and healthcare fields. Companies that purchase “land” in the metaverse see advantages in terms of digital marketing and reaching new consumers, but there are distinct risks such as cybersecurity and the reliance on cryptocurrency.

Market Outlook and Applications

Whereas the metaverse was long seen as niche, expect mainstream business interest to increase in 2023. The number of metaverse companies and startups has exploded in the past year, but so too has the number of businesses entering the virtual world. While it is hard to pin down an exact number of businesses entering the metaverse, major companies such as Nike, Disney, Hyundai and Coca-Cola have joined. Other companies are considering joining or have metaverse strategies in place, suggesting there could be more growth ahead.

According to Fortune Business Insights, the global metaverse market size is projected to grow from \$100.27 billion in 2022 to \$1.527 trillion by 2029 (a CAGR of 47.6 percent). McKinsey & Company predicts that

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the metaverse has the potential to generate up to \$5 trillion in value by 2030. Due to strong growth potential, there is a business case for joining the metaverse. Research has found that consumers active in the metaverse tend to make purchases. This is part of the reason why apparel companies are some of the most enthusiastic entrants into the metaverse. By 2030, McKinsey predicts that more than 50 percent of live events could be held in the metaverse, impacting a host of industries including the entertainment sector. Like the internet, the metaverse is another example of how the digital transformation is profoundly impacting business and commerce.

Outside of commerce, one other potential application is executive training and workplace collaboration. According to a survey conducted by PricewaterhouseCoopers, metaverse learners trained four times faster than classroom learners and were more confident in their skills. Corporate onboarding, sales training and skills training could be re-shaped by the metaverse. Part of the appeal is that metaverse training can be done across borders and is more accessible. As the hybrid workplace shows no signs of going away anytime soon, the metaverse could become the new training platform.

At the recent Consumer Electronics Show (CES) in Las Vegas, the metaverse was highlighted as an immersive technology that can benefit the lives of the ordinary consumer. Tech companies showcased new virtual reality headsets designed to transport the consumer deeper into the virtual world through smell and touch. The metaverse combines “disruptive technologies” such as artificial technology (AI), Web3 and Extended Reality (XR). Any company that leverages these technologies will have a competitive advantage and strong enterprise potential in the future global marketplace.

Business Risks

Businesses entering the metaverse should be aware of risks. In an era where cybersecurity is fundamental to business operations, the metaverse has distinct risks. Companies in the metaverse face the risks of cyber-attacks, while consumers may be subject to identity and privacy hacks. If consumers have personal data collected or their identities compromised, companies may face reputational damage and liability. The risk of hacking attacks from third-party vendors or criminal groups will be a persistent threat in the metaverse given the largely unregulated environment.

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AI will also play a large role in the metaverse as it will be used to power the digital avatars, chatbots and enhance the overall user experience. This presents certain risks including the issue of deepfakes, which can lead to the unauthorized impersonation of individuals. AI algorithms also have access to sensitive personal

information that nefarious actors can gain access to. Empirical research has shown that excessive digital use can lead to mental health issues and some users in the metaverse have reported that they are subject to abuse and harassment. Given these issues, companies may need to rethink how they operate in the metaverse.

The linkages between the metaverse and cryptocurrency also present risks for businesses. In the metaverse, the most common method of payment is made via blockchain-based digital currencies. The collapse of FTX has put a spotlight on the volatility of the cryptocurrency industry. Governments are increasingly sounding the alarm on cryptocurrency's risks such as the Bank of England's warnings that investors should be wary of engaging with cryptoassets and be prepared to lose all their money when buying digital tokens. In the metaverse, crypto trades have been huge sources of risks even before the current volatility in the crypto

industry. Although governments are beginning to strategize about how to regulate the metaverse (and cryptocurrency), the current lack of clarity can leave businesses unprotected.

Over the next year, the consumer metaverse will be more visible as new headsets and platforms become available. Gamers will have a host of new options and the metaverse will become more sophisticated in terms of online retail and video games. Perhaps the key marker for the metaverse's impact is not just how it affects gaming, but the degree to which it transforms key industries such as transportation, healthcare and manufacturing. Consumers report in surveys broad interest in learning more about the metaverse, so the business interest will remain. However, concerns over security, privacy issues and links to cryptocurrency, make it potentially risky investment.

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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. 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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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