

# Dentons Flashpoint

## Global Situation Report

January 11, 2023

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## KEY TAKEAWAYS

In Kyiv, German foreign minister pledges support for Ukraine's bid to join the EU.

The last eight years have been the warmest on record, per the EU's Copernicus Climate Change Service.

The World Bank cuts its growth forecast for the global economy this year amid risk of worldwide recession.

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## WHAT WE'RE WATCHING

**Egypt faces a mounting sovereign debt and currency crisis which the government will struggle to prevent from causing socioeconomic damage in the coming months. Government ministries this week were told to cut non-essential spending, while annual urban consumer inflation hit 21.3 percent. Cairo has cut social spending since 2016 and relied on costly short-term external debt to fund security and prestige projects.**

**Sovereign creditors are slashing their exposure to Egypt's debt, driving a fiscal and balance of payments crisis that has piled pressure on the local currency as the dollar costs of key imports have risen sharply. Major dollar injections are needed to end a currency and dollar liquidity crisis that would drive higher poverty and invite civil unrest in the coming months.**



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

# Global

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**The World Bank sharply lowered its growth forecast for the global economy this year as persistently high inflation has elevated the risk for a worldwide recession, with global growth slowing to 1.7 percent in 2023, down from an estimate of 3 percent growth made in June.**

- Canada will buy a US-made National Advanced Surface-to-Air Missile System (NASAMS) for **Ukraine**. Germany's Foreign Minister Baerbock made a surprise visit to the eastern Ukrainian city of Kharkiv near the Russian border yesterday, promising more weapons as well as *"concrete offers"* to help Ukraine join the EU.
- The WHO recommended that countries consider recommending that passengers wear masks on long-haul flights, given the rapid spread of the latest Omicron subvariant of **COVID-19** in the US.
- **Davos World Economic Forum** will resume in person next week, expecting a record number of business and government leaders to discuss challenges ranging from global economic slowdown to environmental collapse.
- Russia plans to launch another Soyuz rocket on February 20 to bring home two cosmonauts and a US astronaut from the **International Space Station** after their original capsule sprang a coolant leak last month.

# Markets & Business

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**Uniqlo parent Fast Retailing Co Ltd said it would raise wages by as much as 40 percent, adjusting salaries after decades of deflation and cost-cutting, a move likely to be followed by other Japanese retailers.**

- Companies including **GM, Ford, Google** and solar energy producers plan to work together to establish standards for scaling up the use of virtual power plants (VPPs), systems for easing loads on electricity grids when supply is short.
- **Coinbase Global Inc** will cut about 950 jobs, or 20 percent of its workforce, as part of a restructuring plan that marks the third round of layoffs for the cryptocurrency exchange since last year.
- **Bed Bath & Beyond Inc** reported a much wider-than-expected quarterly loss and sales that plunged by a third, additional indicators of a possible bankruptcy.
- UK employees fired by **Twitter** when Elon Musk took over are claiming the dismissals were conducted unlawfully and include unacceptable severance terms, in the latest lawsuit against the CEO.

# Environment, Sustainability & Governance

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**The last eight years have been the warmest on record, per the EU's Copernicus Climate Change Service. Last year was the fifth hottest on record.**

- Some of the world's top **central bankers** aired concerns about being expected to tackle **climate change** as well as tame inflation at a conference in Stockholm. World Bank President Malpass said that the lender is not considering giving up its top-tier credit rating to expand lending to address climate change and other global crises.
- Australia's Labor government proposed to make the country's **biggest polluters slash emissions** by 30 percent over the next seven years.
- Goldman Sachs Asset Management, the fund arm of Goldman Sachs, said it had raised \$1.6 billion for its **first private equity fund focused on investing in companies providing climate and environmental solutions**.
- The British government introduced **legislation** to parliament which would require key public services to maintain minimum safety levels during **strike action** by workers, undercutting their ability to strike.

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# Africa

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- **Ghana** requested to restructure its bilateral debt under the common framework platform supported by the Group of 20 major economies.
- **Uganda's** Constitutional Court removed a key part of a controversial internet law which rights groups charged was aimed at stifling free speech. The element in question made it illegal to “disturb the peace” online.
- Regional forces fighting jihadist violence in **Mozambique** launched an investigation after a video surfaced on social networks showing soldiers throwing dead bodies on a pile of burning rubble.
- The IMF said that corruption had inflated the cost of numerous high-profile tenders and infrastructure projects in **Zambia**.
- New talks between **Sudan's** military and civilian leaders are ongoing in Khartoum; the military has reiterated promises that the army will come under civilian rule but the timeline remains hazy.



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# Asia

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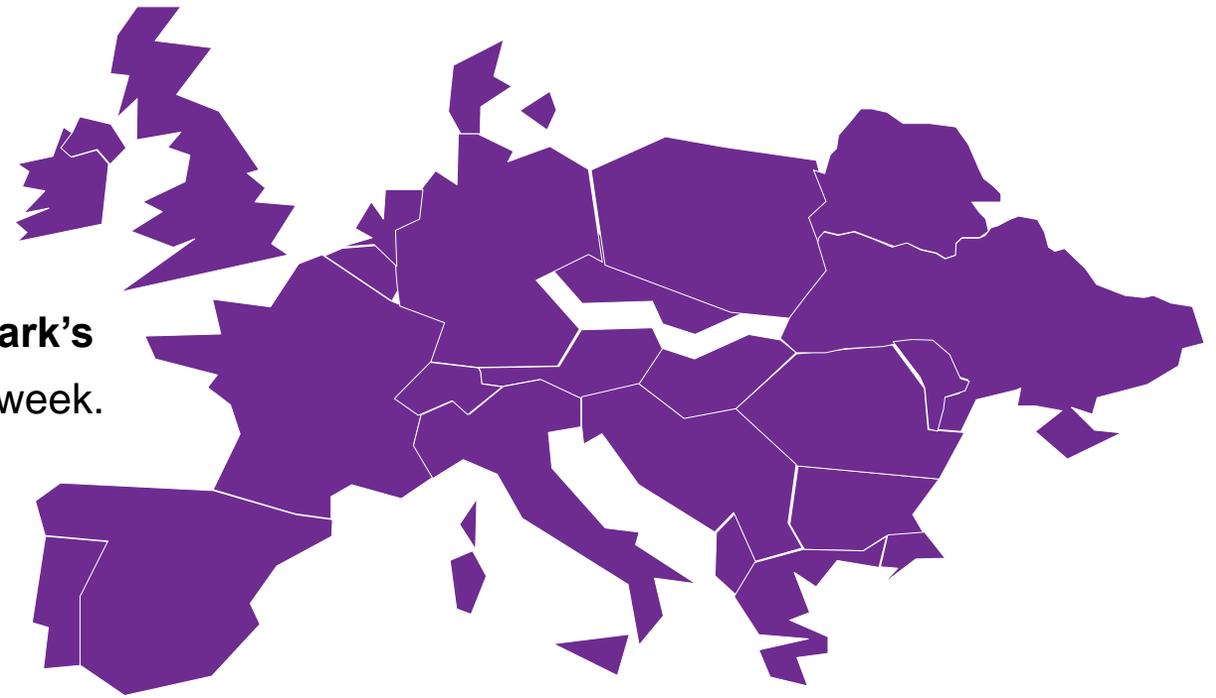
- **China** suspended issuing short-term visas in **South Korea and Japan** on Tuesday, after announcing it would retaliate against countries that required negative COVID-19 tests from Chinese travelers.
- The **Philippines** Supreme Court declared the country's 2005 energy exploration agreement with **Chinese** and **Vietnamese** firms was illegal, ruling the constitution does not allow foreign entities to exploit natural resources.
- **Canada** imposed sanctions on four Sri Lankan state officials over human rights violations during armed conflict in **Sri Lanka** from 1983 to 2009.
- **India's** wheat production is set to jump to a record after all-time high prices prompted farmers to expand planting areas with high-yielding varieties and good weather conditions. Higher wheat output could encourage India, the world's second-biggest producer of the grain, to lift a ban on wheat exports benefiting global food security.



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# Europe

- Hackers have disrupted access to the websites of **Denmark's** central bank and seven private banks in the country this week.
- The war in **Ukraine** is costing **Russia** more than it generated from record oil and gas revenues, with the country's budget gap widening significantly in 2022. Revenues grew 10 percent year on year but overall spending skyrocketed 26 percent.
- The first-ever satellite mission launched from **Western Europe** soil ended in disappointment early on Tuesday, when Virgin Orbit said its rocket had suffered an anomaly that prevented it from reaching orbit.
- The **French** government announced plans to increase the retirement age from 62 to 64 by 2030, a move that will enrage the country's powerful labor unions. The government defended the reform as need to fiscally balance the country's pension system.



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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:*

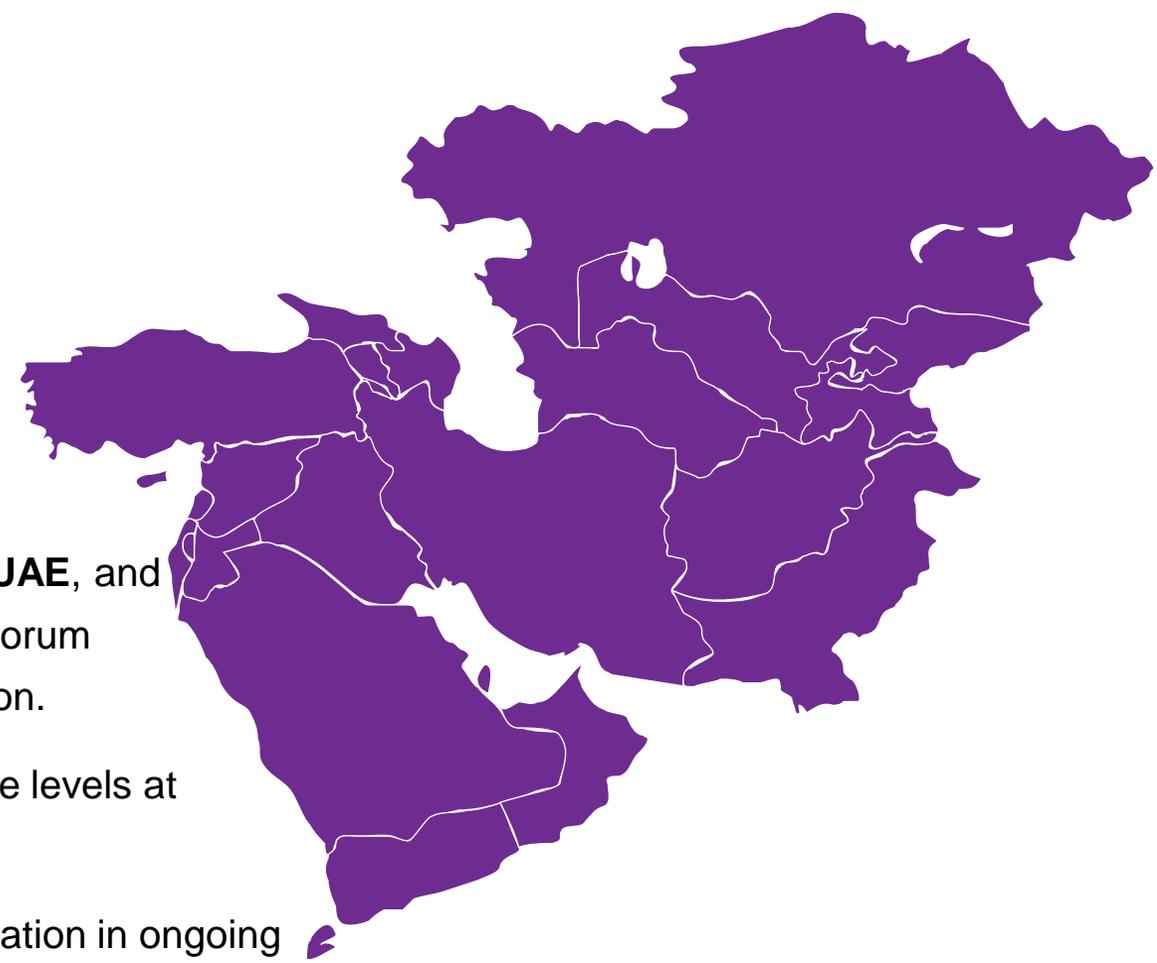
- ❖ Ransomware tabletop exercises
- ❖ Post-tabletop action reports
- ❖ Maturity assessments for preparedness
- ❖ Supply-chain attack simulation
- ❖ Comprehensive incident response plan
- ❖ Threat analysis and monitoring

*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

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- The **US** Navy seized over 2,100 assault rifles from a ship in the Gulf of Oman it believes came from **Iran** and were bound for **Yemen's** Iranian-backed Houthi militia.
- Around 150 officials from **Bahrain, Egypt, Israel, Morocco, the UAE**, and the **US** gathered in Abu Dhabi for the first meeting of the Negev Forum working groups, an effort to expand upon Arab-Israeli normalization.
- **Saudi Arabia** announced that it expects pre-pandemic attendance levels at the upcoming 2023 Hajj season.
- An **Iranian** court sentenced another protester to death for participation in ongoing anti-regime demonstrations; over a dozen protesters have thus far been sentenced to death.

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# Americas

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- **Brazilian** police are questioning some 1,000 protesters after anti-government mobs sacked public buildings over the weekend.
- **Peru's** government approved an overnight curfew in the restive southern region of Puno. Seventeen protesters were killed on Monday, and on Tuesday, a police officer died in his car after it was set on fire.
- The **US and Canada** reached a partial resolution over a yearslong border-security dispute that has disrupted plans for business travelers and others who frequently cross the border. US President Biden announced his first visit to Canada in March.
- **US** President Biden and his **Mexican** counterpart discussed stronger economic ties, fighting the illegal drug trade, and approaches to curbing illegal migration at a meeting in Mexico City on Monday, per the White House.



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# Americas: US

- US **greenhouse gas emissions** rose again in 2022, putting the country further behind its targets under the Paris climate agreement despite the passage of sweeping clean energy legislation last year.
- More than 33 million Californians were threatened by **severe weather** throughout the day yesterday, as "heavy to excessive" rainfall drenched the state, especially in southern California. Winds gusts were clocked at more than 40 miles (64 km) an hour in many places, per the National Weather Service.
- In its annual **national climate assessment**, the National Oceanic and Atmospheric Administration listed drought in the western US, early and swift-moving wildfires in Alaska, and Hurricane Ian's extensive destruction among the record-setting events of last year. The series of disasters pushed damage costs from extreme weather events to about \$165 billion.
- The Pentagon has announced it will teach **Ukrainian** troops to use Patriot missile systems in the US, marking one of the few occasions Kyiv's forces have been trained on American soil since Russia's full-scale invasion last year.

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# The Year Ahead for ESG Investing

*Environmental, social and governance (ESG) investing just concluded a troubled year. The investment class saw net outflows for the first time since 2011 amid the fallout from the Ukraine war and general financial instability. At the same time, conservative opposition against “woke” investment built, with ten states adopting regulations that would limit the state’s ability to consider ESG in its own investments or do business with entities that do themselves. Despite these obstacles, experts expect ESG to return to solid growth, bolstered by increased interest in guarding business interests against ESG-related risks and hardened resolve against climate change following a destructive year.*

## *A Rocky 2022*

ESG saw multiple setbacks over the last twelve months. In the US, anti-ESG sentiment was on the rise as conservative policymakers characterized the strategy as “wokeism” directly at odds with profit. By the end of 2022, ten states had implemented regulations – either via legislation or a policy recommendation from the Attorney General – limiting the ability of state governments to do business with entities that are identified as “boycotting” certain industries (popularly, the fossil fuel and gun industries). A total of 18 have proposed or adopted legislation accomplishing the same goal. By December, seven states had pledged to divest more than \$3 billion from BlackRock over its ESG policies, which they say violate the fiduciary responsibility of the asset manager.

At the same time that conservatives have pushed from the right to discredit ESG investments, proponents of the movement’s

cause have also cast doubt on the risks of inflating ESG claims. In November, Goldman Sachs agreed to pay a \$4 million penalty to settle charges brought by the SEC for “procedural failures” in its ESG research. Earlier last year, German authorities raided the offices of asset management company DWS on suspicion of “prospectus fraud” related to its ESG strategy. Crackdowns on suspected “greenwashing” will only increase, potentially dampening some enthusiasm for ESG investing. One study last year found that if the sector were subject to a more rigorous definition of ESG, US assets in related products could equal as little as \$8 trillion – not \$17 trillion.

## *Positive Indicators*

Despite these negative indicators, growing appetite for socially and environmentally conscious investments, paired with an accelerating green transition and hardened resolve to fight climate change following an

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# The Year Ahead for ESG Investing

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impactful year, will likely drive a return to ESG investments in the coming year. While the developments of 2022 roiled global markets, sending investors rushing to more traditionally stable funds, those same developments underscored, for ESG proponents, that indexes that take those risks into account can be a smart investment. A volatile oil market could spur increased investment in green technologies as a long-term strategy, and the stark displays of climate destruction (like flooding in Pakistan and heat waves in Europe) are expected to increase commitment to clean technologies and industries with lower climate impacts.

Perhaps even more significantly, ESG is increasingly being seen as a core element of business, rather than a fringe strategy for do-gooders – a recent Deloitte survey found that more than half of executives anticipate benefits from enhanced ESG report (including employee retention, reduced risk, and improved brand reputation), and a McKinsey & Co. study found a strong correlation between ESG and financial returns. Fund managers as a whole remained disciplined on ESG despite new pushback, with most sticking by or increasing their commitments to ESG causes and withdrawing support from sectors that are not in line with their efforts. Giants of

ESG HSBC, French AXA, and the Norwegian sovereign investment fund stepped up commitments to force net zero commitments at companies in their portfolios; in one notable counter example, Vanguard withdrew last year from the Net Zero Asset Managers initiative, a potential bid to differentiate itself from BlackRock.

Another trend to watch in 2023 will be the rise of transparency. In late 2022, the EU moved closer to a deal on long-sought greenwashing regulations that would impose significant new requirements on the world's largest green bond market. The US SEC also imposed new greenwashing rules in mid-2022, and Switzerland is planning new rules. Tighter greenwashing regulations, a source of fear for many, will in actuality likely lend ESG regulations credibility, making them stronger in the long-term. Despite last year's turmoil, 2023 will further trends contributing to ESG's long-term sustainability, from sustained demand for green investments (stemming from market turmoil and increased climate turmoil) to greater transparency.

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# Contacts

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*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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