

# NAVIGATING GEOPOLITICAL RISKS

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REDUCING EXPOSURE, INCREASING RESILIENCE  
& MAINTAINING SUCCESS

**MULTIPLY**  
GROUP

**PART**

**1**

**THE IMPORTANCE OF GEOPOLITICS AND GEOECONOMICS**

- ▶ Defining Geopolitics and Geoeconomics
- ▶ Geopolitical theories and the evolution of Modern Geopolitics
- ▶ The 2023 WEF's Global Risks Perception Survey findings
- ▶ How Google, Intel, Pfizer navigate Geopolitical risk to build resilience.

**PART**

**2**

**LEADING GEOPOLITICAL RISKS**

- ▶ Comparing Geopolitical risks assessments
- ▶ Top 5 Geopolitical risks:
  1. Global Decoupling
  2. China - US/EU Tensions (De-Dollarization Drive subsection)
  3. Climate Policy
  4. The impact of Russia-Nato conflict
  5. Emerging Economies- Political dynamics (Turkey, India Elections and other trends)

**PART**

**3**

**RECOMMENDATIONS FOR INVESTORS**

- ▶ Harvard Business review's recommendations on How companies can navigate today's geopolitical risks
- ▶ Mckinsey's recommendations on how Global companies can manage geopolitical risk
- ▶ Additional Challenges to investors
- ▶ The Russia-Ukraine war: negative and positive aspects for investors
- ▶ The Difficult choices of the Global Decoupling

# 1 T R A P

## THE IMPORTANCE OF GEOPOLITICS AND GEOECONOMICS

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## WHAT IS GEOPOLITICS?

Britannica defines Geopolitics as the analysis of the geographic influences on power relationships in international relations. The word geopolitics was originally coined by the Swedish political scientist Rudolf Kjellen in 1900.

Philosophers such as Aristotle and Montesquieu were prominent in writing about the political effects of geography (especially Climate, topography, arable land and access to the Sea)

Among the best-known early geopolitical writings is the extensive literature of the late 19th and early 20th centuries, much of which focused on the impact on world politics of the new technologies of the Industrial Revolution

## THE CFA INSTITUTE'S DEFINITION

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Geopolitics is the study of how geography affects politics and international relations. Analysts study actors—the individuals, organizations, companies, and national governments that carry out political, economic, and financial activities—and how they interact with one another.

*=> These relations matter for investments because they contribute to important drivers of investment performance, including economic growth, business performance, market volatility, and transaction costs.*

*\*GeoEconomics: (Chatham House) It is understood as the use of economic tools to advance geopolitical objectives. (sanctions, trade restrictions...)*

# GEOPOLITICAL THEORIES AND THE EVOLUTION OF MODERN GEOPOLITICS

In the 19th-20th centuries: 3 geopolitical theorists attempted to answer the question: How to control the world?

- 1** Alfred Mahan's (USA, Naval officer, Historian and strategist)- 1890 "Sea Power" theory → those who controlled the sea would control the world

  - ▶ U.S could be threatened by a hostile power(s) that gained effective political control of the key power centers of Eurasia.
  - ▶ He recognized the power potential of China and foresaw a time when the U.S would need to be concerned with China's rise.
  - ▶ Predicted that an alliance of U.S, Britain, Germany and Japan would one day have common cause against Russia and China.
  - ▶ Argued that British control of the seas, combined with the decline in naval strength of major European rivals, paved the way for GB's emergence as the world's dominant military, political, and economic power. He believed these lessons could be applied to U.S. foreign policy, particularly in the quest to expand U.S. markets overseas.
  
- 2** John Mackinder's (British Geographer, academician, politician)-1904 "Heartland" theory.

  - ▶ World Island, Coastal islands, Peripheral islands
  - ▶ Heartland's great Human, natural resources + railway network = greater mobility to conquer.
  - ▶ Russo-German or Sino-Japanese alliance would add "oceanic frontage"= create Great Power
  - ▶ Whoever rules Eastern Europe will rule the Heartland, whoever rules the Heartland will rule the World Island, and whoever rules the World Island will rule the world!

- 3** Nicholas John Spykman's (USA, Holland- International relations professor)-1942 "Rim Land" theory → those who controlled the rim land would control the world

  - ▶ Main power belongs to countries around the edge of Europe & Asia, thus encircling/controlling the Heartland.
  - ▶ Control of coastal countries & the sea, gives an advantage over the control of the land itself.
  - ▶ Combined naval and land force in Rimland would stop Soviet expansion (Kennan)



# THE DEVELOPMENT OF MODERN GEOPOLITICS

Modern geopolitics has developed through five stages (Saul Bernard Cohen (2003) – The race for imperial hegemony, German Geopolitik, American Geopolitics , The Cold War geopolitics and the Post-Cold war era.

**The race of imperial hegemony:**  
The stronger dominates the weaker through military power → Expansionism

**German Geopolitik:**  
Early 19th century influenced by nationalism, and clash of civilizations theories. Inspired the Nazis. German revisionism after defeat in WWI made it popular.

**American Geopolitics (Spykman):**  
The balance of power in Eurasia directly affects US security

**Cold War Geopolitics:**  
Diplomacy and confrontation between the former USSR (and allies) and The United States and its allies. George Kennan's containment strategy.

**Post-Cold War Geopolitics:** A new world order? Russian irredentism? Neocolonial practices? The rise of the Dragon?

# THE 2023 WEF'S GLOBAL RISKS PERCEPTION SURVEY FINDINGS

The 2023 WEF's Global Risks Perception Survey GRPS has brought together leading insights on the evolving global risks landscape from over 1,200 experts across academia, business, government, the international community and civil society. (responses collected 07/09 to 05/10 2022).

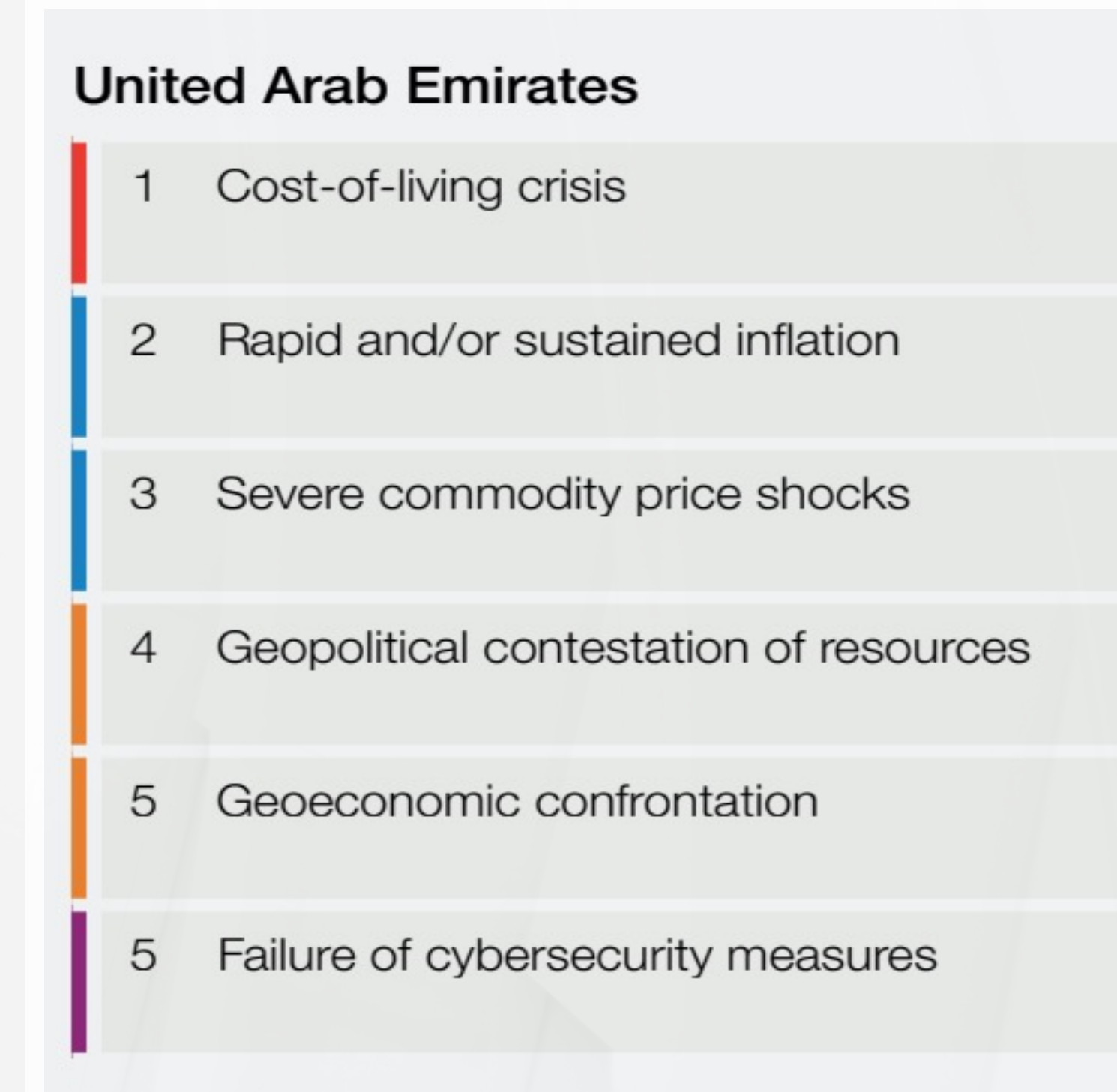
\*Complemented by a survey of 12,000 Business leaders from 121 countries (Executive opinion Survey)

## Global risks ranked by severity over the short and long term

Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period



## UAE's Top 5 risks as per the Executive Opinion Survey (EOS)





# HOW GOOGLE, INTEL, PFIZER NAVIGATE GEOPOLITICAL RISK TO BUILD RESILIENCE

## Leading risks according to the 3 companies:

Russia-Ukraine conflict, strenuous international relations, internet restrictions, competing interests across Europe and disinformation



- ▶ Has an exemption to trade with Russia, but no Business-as-usual → profits donated to Ukraine. Main challenge? Disinformation
- ▶ Growing importance of Government affairs



- ▶ Need resiliency and redundancy : in manufacturing, in supply chain and R&D (Rus/Ukr)
- ▶ Stay ahead of current events around the World essential for Risk Management → Multipolar World: What happens in Europe is a precursor to what may happen in US or what's going on in China has to interact with what's going on in EU, US.
- ▶ China-US relations as the top issue for 2023



- ▶ A dramatic growth in regulation of the internet and of platforms, in some countries → “We operate by the rules of the countries in which we are present until we can't.”
- ▶ The Specter of a fragmented Internet (Russia's Runet, China's Great FireWall)
- ▶ Encourage input from employees (Present in different nations), to fight off disinformation

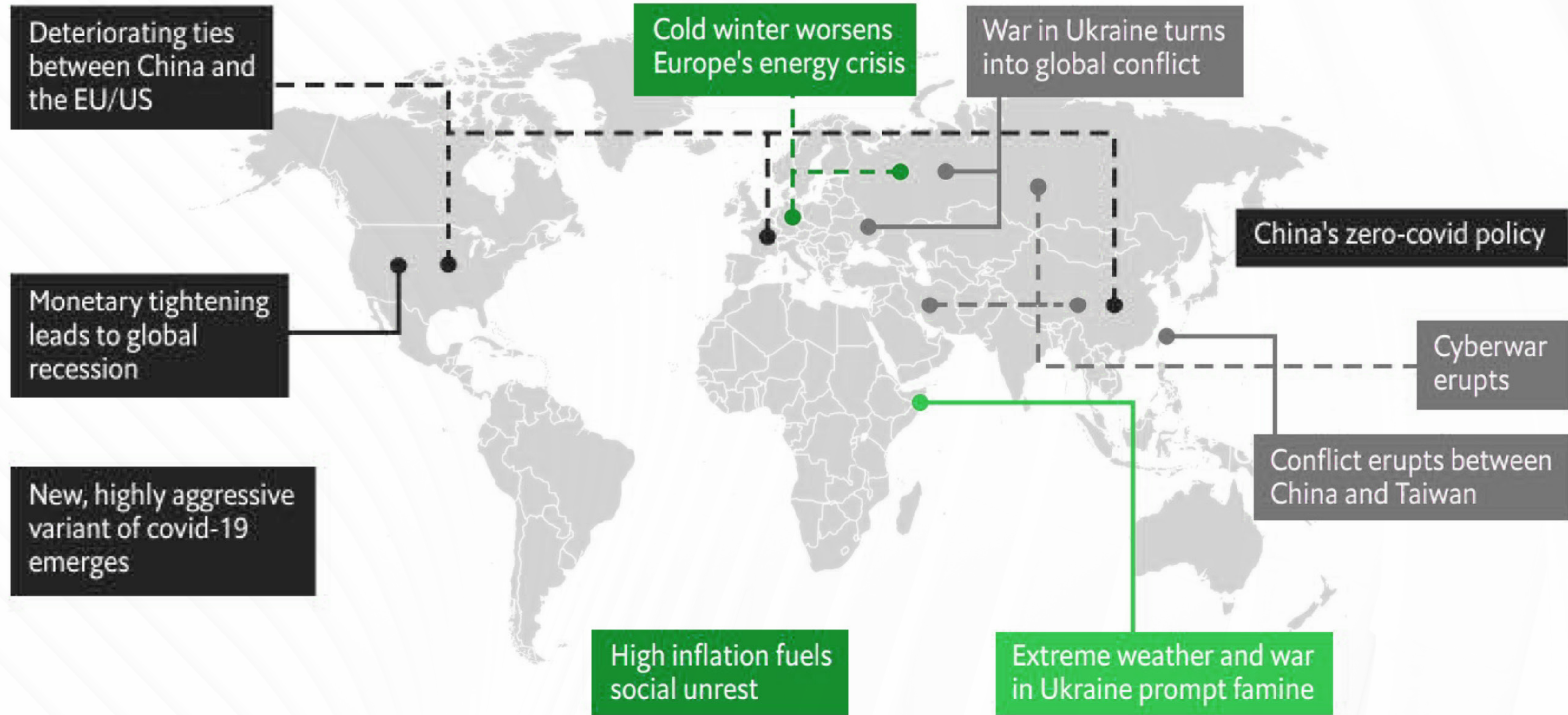
# **LEADING GEOPOLITICAL RISKS**

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# COMPARING GEOPOLITICAL RISKS ASSESSMENTS

BLACK ROCK	STIMSON CENTER	EIU	WEF	EDELMAN
U.S.-China strategic competition	Deepening US - China tensions	Deteriorating ties btw China and US/EU	Geoeconomic confrontation	
Russia-NATO conflict	Polycrisis from The Ukraine War	War in Ukraine turns into a global conflict		Ukraine Russia conflict
Global Technology Decoupling	Technopolarized and fragmented System	Conflict between China and Taiwan		
Emerging Markets Political Crises	Worsening Debt Crises in developing World	China's zero Covid policy		
Climate Policy Gridlock	Worsening impact of climate change	Extreme weather/Ukraine war prompt famine	Natural disasters/climate change (adapt, mitigation failures)/environment	Climate-related events/Climate Policy
North Korea Conflict	A dangerous predicament on the Korean Peninsula	Monetary tightening leads to Global recession	Erosion of social cohesion and societal polarization	Global Economic Slowdown
Major Cyber Attacks	Growing Food Insecurity	New Covid-19 aggressive variant	Natural resources crises	
Major Terror Attacks	Deepening Global cooperation deficit	Cyber War erupts	Widespread Cyber Crime/Cyber insecurity	
Gulf Tensions	Upheaval and Confrontation with Iran	Cold Winter worsens Europe's Energy Crisis	Large scale involuntary migration	US presidential elections ramp up
European Fragmentation	Spiraling Global Debt	High inflation fuels social unrest	Cost of living crisis	Continued supply Chain challenges

# GLOBAL RISK SCENARIOS



■ Political   ■ Military   ■ Economic   ■ Environmental

# GLOBAL DECOUPLING

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Over the last 30 to 40 years, industrial companies rode the wave of globalization and established international supply chains to maximize production and cost-efficiency. Today, these architectures are threatened by a confluence of external forces: large-scale global events, increasing protectionism and wage inflation in lower-cost countries.

- ▶ **Decoupling:** the process of weakening interdependence between two nations or blocs of nations. In our case it is mainly Western decoupling from China (and of Russia in Energy).
- ▶ **De-Globalisation and Re-Globalization** used as synonyms in context of Tech decoupling with China.
- ▶ **Japan's IDE-JETRO** (Institute of Developing Economies) published a study calculating the impact of Global Decoupling on the Global Economy.
- ▶ **Assumed world divided into 2 camps:** U.S (Western) and Chinese-Russian (Eastern).
- ▶ **Western camp:** A total of 34 countries and regions with foreign policy similarities to those of the U.S., including the U.S., the United Kingdom, 27 EU countries, Canada, Japan, South Korea, Taiwan, and Australia.
- ▶ **Eastern camp:** A total of 16 countries that are subject to some form of economic sanction by the U.S.: China, Russia, Belarus, Cuba, Venezuela, Nicaragua, Iran, Iraq, Yemen, Lebanon, Myanmar, Libya, Sudan, Democratic Republic of Congo, Zimbabwe, and Somalia.

## THE TWO SCENARIOS

### Scenario 1

Impact on global economy: -2.3% (US\$ 2.7 trillion) on Japan, U.S., EU, China: -3.0% to -3.5%. Impact on the Western camp is -3.4%, and that on the Eastern camp is -2.7%. Neutral countries = + 0.3%.

### Scenario 2

Impact on global economy: -7.9% (US\$ 8.7 trillion) on Japan, China, U.S. btw -9.4%, and -12.0%. Impact on Western camp is -12.2%, on the Eastern camp is -8.1%, and on the neutral countries is +1.8%.

**TABLE 1** Economic Impacts of Scenario 1 (2030, compared with the baseline scenario)

	Japan	Korea	Taiwan	US	EU	China	Russia	India	ASEAN	Africa	Latin America	The West	The East	Neutrals	World
Agriculture	-5.9%	-7.4%	-9.9%	-0.2%	-6.9%	-0.6%	-0.4%	-0.7%	-0.4%	-1.2%	0.0%	-5.0%	-0.6%	-0.7%	-1.5%
Mining	-1.5%	-3.6%	2.0%	-0.9%	-4.1%	-1.0%	0.0%	-1.7%	0.2%	0.9%	0.2%	-1.6%	-0.2%	0.1%	-0.3%
Food processing	-8.6%	-11.3%	-5.2%	-12.4%	-11.1%	-2.5%	-3.2%	2.9%	2.2%	2.2%	2.0%	-11.1%	-2.7%	2.4%	-4.4%
Germent and textile	3.2%	1.8%	3.1%	3.1%	1.8%	-4.8%	-1.3%	3.5%	3.0%	1.3%	1.1%	2.2%	-4.7%	2.9%	-2.4%
E&E	0.1%	-1.7%	-3.5%	0.7%	-0.1%	-7.9%	-0.4%	0.7%	1.9%	0.6%	0.3%	-0.2%	-7.8%	1.2%	-3.4%
Automotive	-3.5%	-5.4%	-4.2%	-2.0%	-3.9%	-6.7%	2.1%	0.3%	0.2%	0.1%	-0.1%	-3.6%	-6.9%	0.2%	-3.4%
Oth. Manufacturing	-0.6%	-3.6%	-3.2%	-1.0%	-1.7%	-7.2%	-3.5%	1.5%	1.3%	0.3%	0.6%	-1.5%	-7.1%	1.1%	-3.3%
Services	-3.7%	-3.2%	-3.1%	-3.3%	-3.6%	-0.1%	0.4%	-0.3%	0.1%	-0.2%	0.1%	-3.5%	0.0%	0.0%	-2.2%
GDP	-3.4%	-3.4%	-3.3%	-3.1%	-3.5%	-3.0%	-0.2%	0.1%	0.5%	-0.1%	0.3%	-3.4%	-2.7%	0.3%	-2.3%

**TABLE 2 Economic Impacts of Scenario 2 (2030, compared with the baseline scenario)**

	Japan	Korea	Taiwan	US	EU	China	Russia	India	ASEAN	Africa	Latin America	The West	The East	Neutrals	World
Agriculture	-15.1%	-15.5%	-26.7%	2.2%	-17.0%	-1.4%	-1.4%	-2.8%	-1.6%	-4.4%	2.9%	-11.4%	-1.3%	-2.4%	-3.9%
Mining	-7.8%	-14.3%	8.7%	-4.1%	-13.0%	-1.3%	0.2%	-4.8%	1.7%	6.0%	1.1%	-6.2%	1.6%	0.9%	-0.3%
Food processing	-23.0%	-37.3%	-7.6%	-44.7%	-35.6%	-12.8%	-12.7%	17.2%	14.2%	11.5%	11.9%	-36.9%	-13.4%	14.1%	-13.8%
Germent and textile	27.4%	14.5%	20.0%	21.4%	15.3%	-19.4%	-4.3%	25.9%	21.3%	10.1%	7.6%	17.6%	-19.1%	20.3%	-7.1%
E&E	2.1%	-5.0%	-14.4%	2.1%	0.8%	-25.0%	-1.9%	2.5%	6.2%	2.3%	1.0%	-0.2%	-24.7%	4.0%	-10.8%
Automotive	-10.8%	-18.3%	-16.6%	-8.3%	-13.3%	-15.9%	7.5%	-0.1%	-0.9%	0.7%	-1.8%	-12.2%	-16.7%	-1.1%	-10.2%
Oth. Manufacturing	-0.5%	-13.0%	-12.9%	-4.7%	-5.4%	-24.4%	-10.0%	6.0%	5.0%	1.6%	2.3%	-5.2%	-23.7%	4.5%	-10.8%
Services	-13.4%	-11.0%	-11.8%	-12.6%	-12.5%	1.4%	1.9%	-0.6%	0.8%	-0.2%	0.9%	-12.9%	1.5%	0.6%	-7.6%
GDP	-11.6%	-11.3%	-12.1%	-12.0%	-12.0%	-9.4%	-0.1%	1.2%	2.6%	0.6%	1.6%	-12.2%	-8.1%	1.8%	-7.9%



**THE  
SEMICONDUCTORS  
INDUSTRY: THE  
SINO-AMERICAN  
RACE FOR HIGH  
TECH SUPREMACY**

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25% of the world's semiconductors are consumed in electronics in China +25% go through the Chinese manufacturing industry. While it produces only 5% of them it has poured \$50bn into chipmaking (\$140 billion package). Goal: Meet 70% of domestic demand for chips by 2025.

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The chip industry was built on globalisation, with every part of the supply chain supporting it. TSMC's fabs could make chips faster & more accurately than any rival.

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Replicating this supply chain elsewhere would be inefficient. TSMC 's Chang: cost of making chips in U.S = 55% higher. He believes manufacturing in US "doomed to fail". However, shift to local supply chains is happening, due to Covid & Ukraine's conflict.

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Washington is convincing its allies in Japan, South Korea and the Netherlands restrict the overseas (China) sale of chip manufacturing equipment.

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Taiwan's TSMC will triple investments to \$40bn in Arizona, open a 2nd fab in 2026 & make 3-nanometre chips (most advanced) in the U.S.

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South Korea's Samsung Electronics is building a \$17 billion chip plant in Texas.



# CHINA - US/EU TENSIONS

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Breathing new life into Georges Kennan's containment strategy? 200 years later- The New Great Game?

In the context of the strategic competition between Washington and Beijing, the U.S seems to be resorting to the effective Cold War strategy of containing the former USSR. According to secretary of State Blinken

“China is the only country with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military and technological power to do it”

China, Russia and other powers are seeking to create a Multipolar World (BRICS, SCO, AIIB...).

Xi-Jinping introduced a 24- character phrase describing China's new foreign policy: Be calm, keep determined, seek progress & stability, be proactive & achieve things, unite & dare to fight.

The new policy is ambitious and assertive compared to Deng Xiaoping's 24-Character strategy which focused on remaining calm, keeping a low profile and never claiming leadership.

## U.S MEASURES TO CONTAIN CHINA

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- ▶ Political-Military alliances: AUKUS (2021), NATO liaison office in Tokyo, QUAD (The Biden administration aims to “shape the strategic environment” around Beijing to limit its increasingly aggressive actions (Blinken)). Increased cooperation with Philippines, India, Japan, South Korea
- ▶ A technology and defense initiative by India and the U.S aims at countering China and reducing New Delhi’s dependence on Russian weapons
- ▶ Trade restrictions and sanctions (political, competition, espionage fears..)
- ▶ Technology restrictions (ex: Chips, advanced tools..)
- ▶ Diplomatic campaigns focusing on Human Rights issues and on Beijing supporting Russia
- ▶ Build Back Better World B3W (US/G7), Global Gateway (EU) vs Belt and Road Initiative BRI (concerns of Debt-trap diplomacy (neocolonialism))
- ▶ Freedom of Navigation in South China Sea
- ▶ Commitment to defend Taiwan

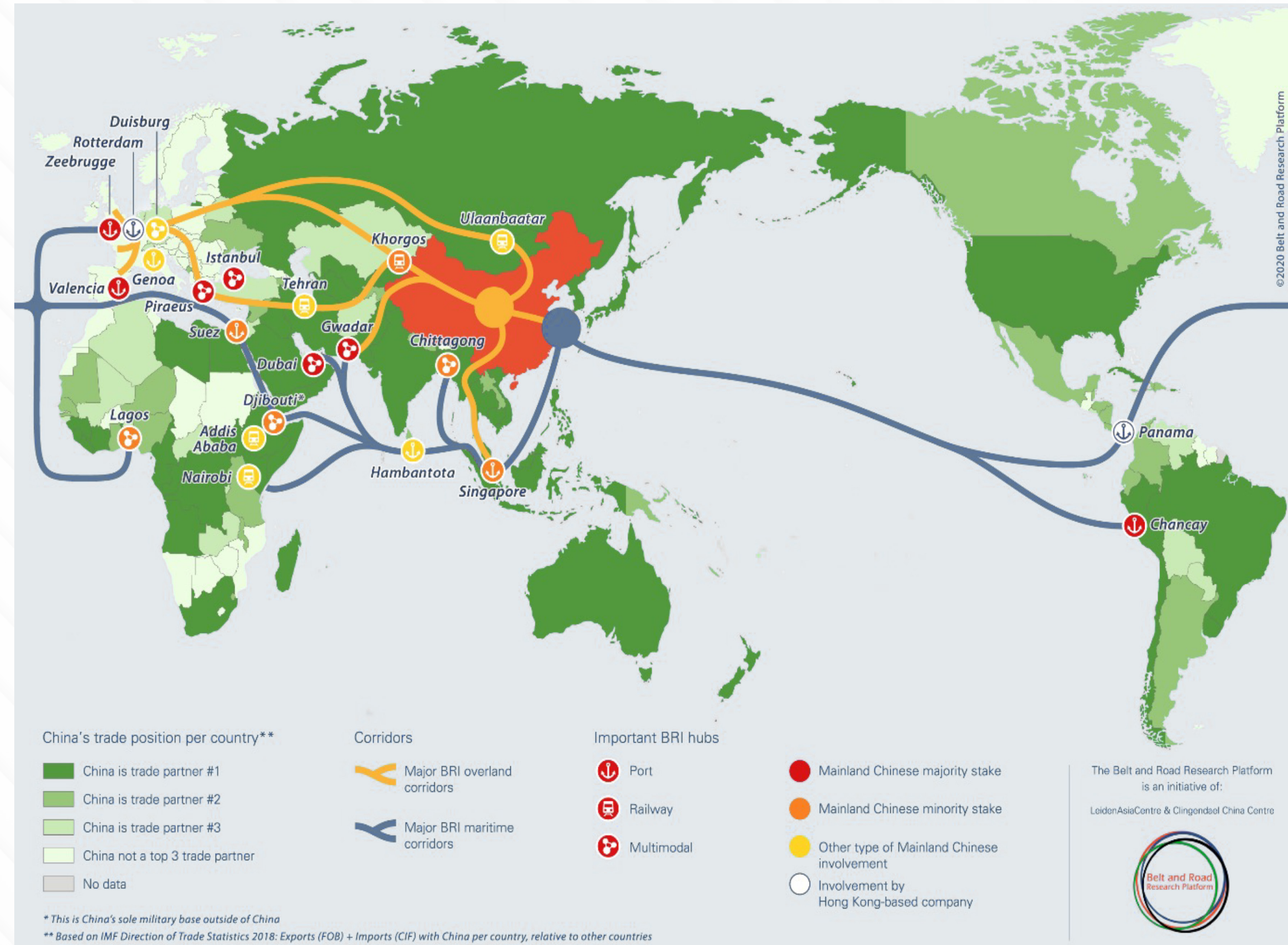
**Taiwan:** 92% of the production of logic semiconductors with components < 10 nanometers

**Taiwan:** 65% of the world’s semiconductors & 90% of the advanced chips (15% of GDP)

50% of global commercial traffic goes through the Taiwan Strait every day

# BELT & ROAD (BRI) VS THE GLOBAL GATEWAY

## The BRI and China's International Trade



## The Global Gateway

Connecting goods, people and services around the world in a sustainable way

€ 300 billion in investments (2021- 2027) Through a Team Europe approach



Global Gateway is Europe's offer to build more resilient connections with the world through investments and partnerships

### INVESTMENT PRIORITIES



Digital Networks and Infrastructures



Climate Resilience and Clean Energy



Green Smart and Safe Transport



Health Systems and Supply Chains



High Quality Education and Research

### KEY GUIDING PRINCIPLES FOR INVESTMENTS

Democratic values and high standards



Good governance and transparency



Equal partnerships



Catalysing private sector investment

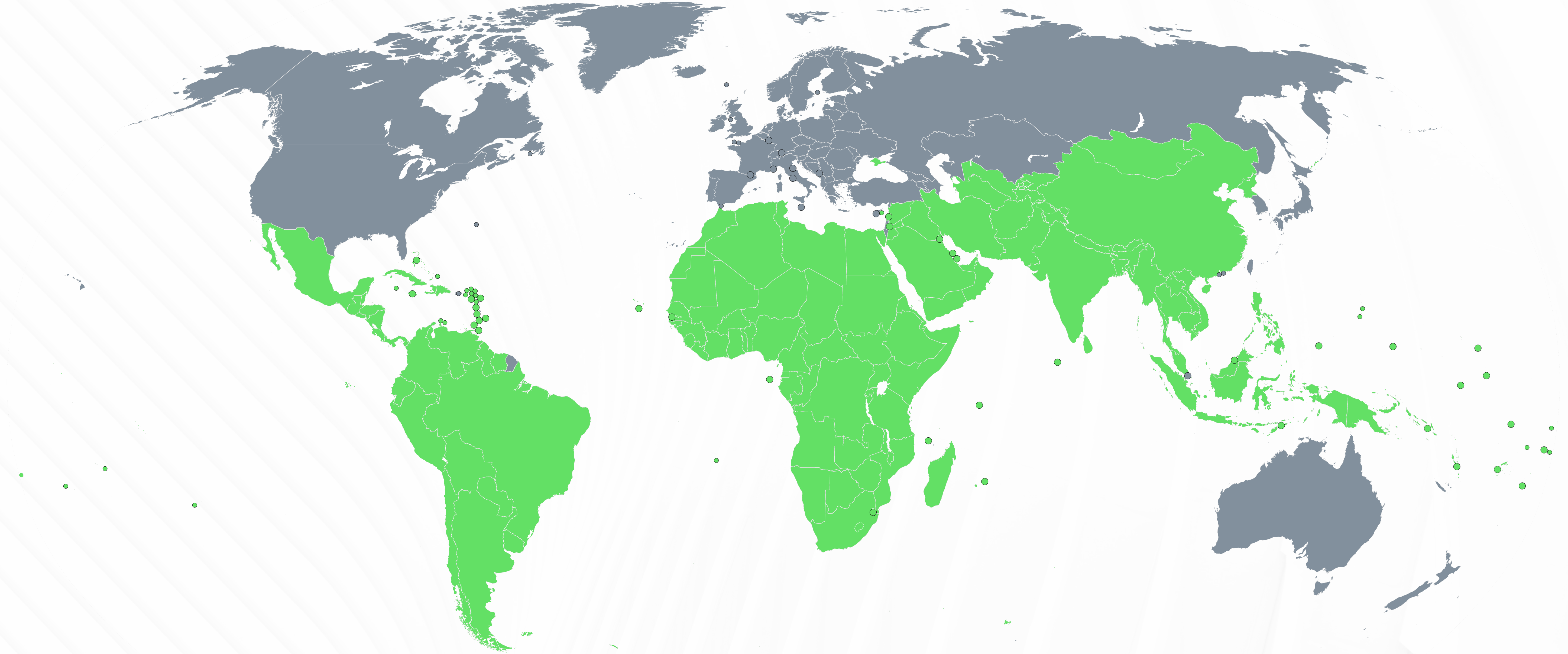


Security focused

Green and clean infrastructures



# THE NORTH-SOUTH DIVIDE



## THE DE-DOLLARIZATION DRIVE

### Insulation against Western sanctions and a boost to China's global influence

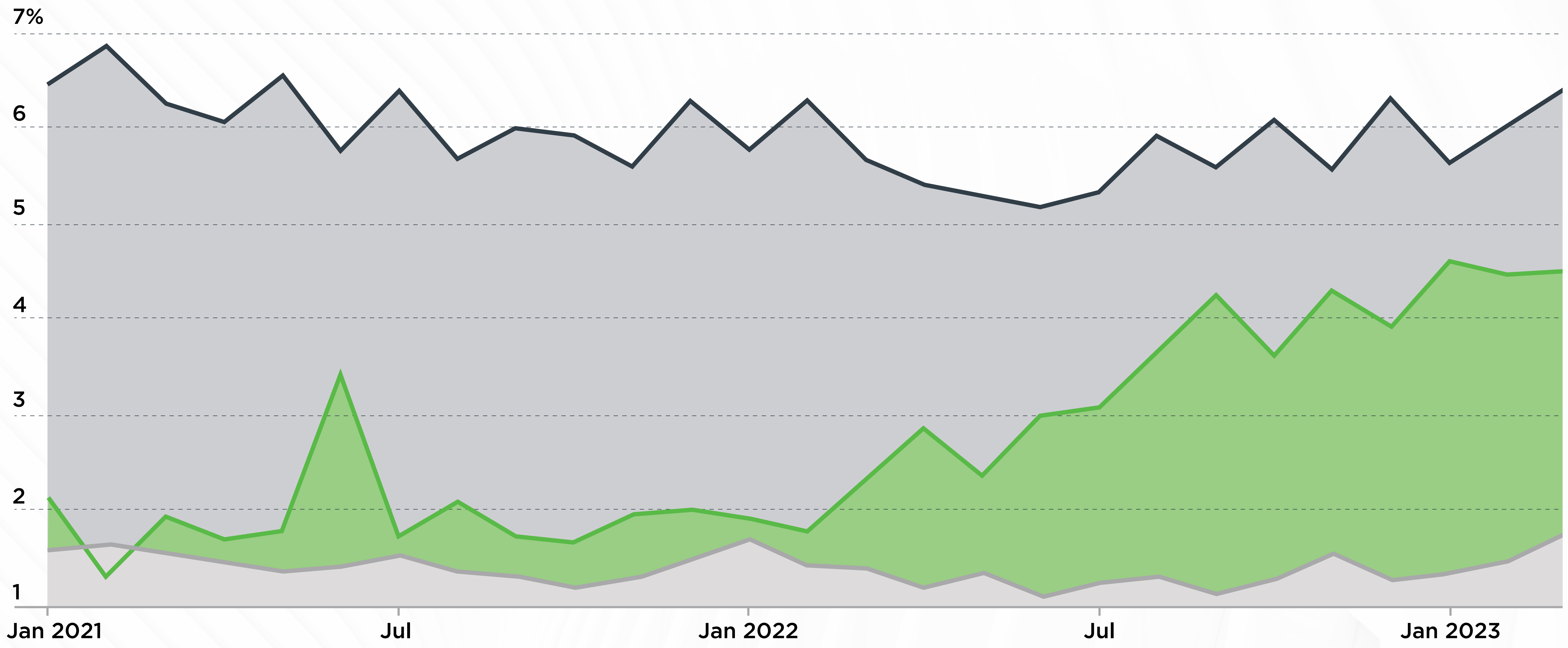
- ▶ China pushing to boost the internationalization of its currency. (between March 2021 and March 2023 Yuan's share of the trade finance market (80% of world trade) > doubled (graph).
- ▶ Argentina and Brazil recently reached agreements to pay for Chinese imports in yuan rather than USD. Saudi Arabia considers accepting Chinese Yuan for oil sales. China and France completed first LNG trade using Yuan.
- ▶ Malaysia's PM reportedly suggested setting up an "Asian Monetary Fund" to reduce reliance on USD.
- ▶ Brazil's Lula supports establishing a currency for trade between BRICS countries. Summit in South Africa in August will discuss the issue.
- ▶ China steadily reducing U.S. Treasury securities holdings. March 2023: \$869 billion of U.S. (March 2022; \$1013 Billion), a 12-year low.
- ▶ September 2022; SCO summit: Road map to expand trade in local currencies and develop alternative payment and settlement systems.
- ▶ Russia: Feb 2023, Yuan overtook USD as most traded currency on Moscow exchange for 1st time in its history. Putin: Russia supports payments in yuan in trade with Asian, African and Latin American nations.
- ▶ Indian oil refiners settling payments for Russian discounted crude using AED, rubles, rupees.



# China's share of global trade finance has more than doubled since Russia invaded Ukraine in February 2022

Market Share %

N A V I G A T I N G G E O P O L I T I C A L R I S K S



■ YUAN ■ EURO ■ YEN

Source: Swift Guardian graphic

# CLIMATE POLICY

## Global Warming facts and projections

- ▶ More than 140 countries, covering 90% of global emissions have announced a mid-century-ish carbon neutrality target - China's is 2060, India's 2070.
- ▶ Based on what countries have put on the table for 2030, the world is set to warm by 2.4C by 2100. That picture gets a bit better if you include the US's and China's long-term targets, which reduces the temperature to 2.1C.
- ▶ If every country implemented their long-term net zeroes, then 1.8C could indeed be possible.

## Consequences of climate change

**Natural consequences:** High temperatures, Drought and wildfires, Availability of fresh water, Floods, Sea-level rise and coastal areas, Biodiversity, Soils, Inland water, Marine environment.

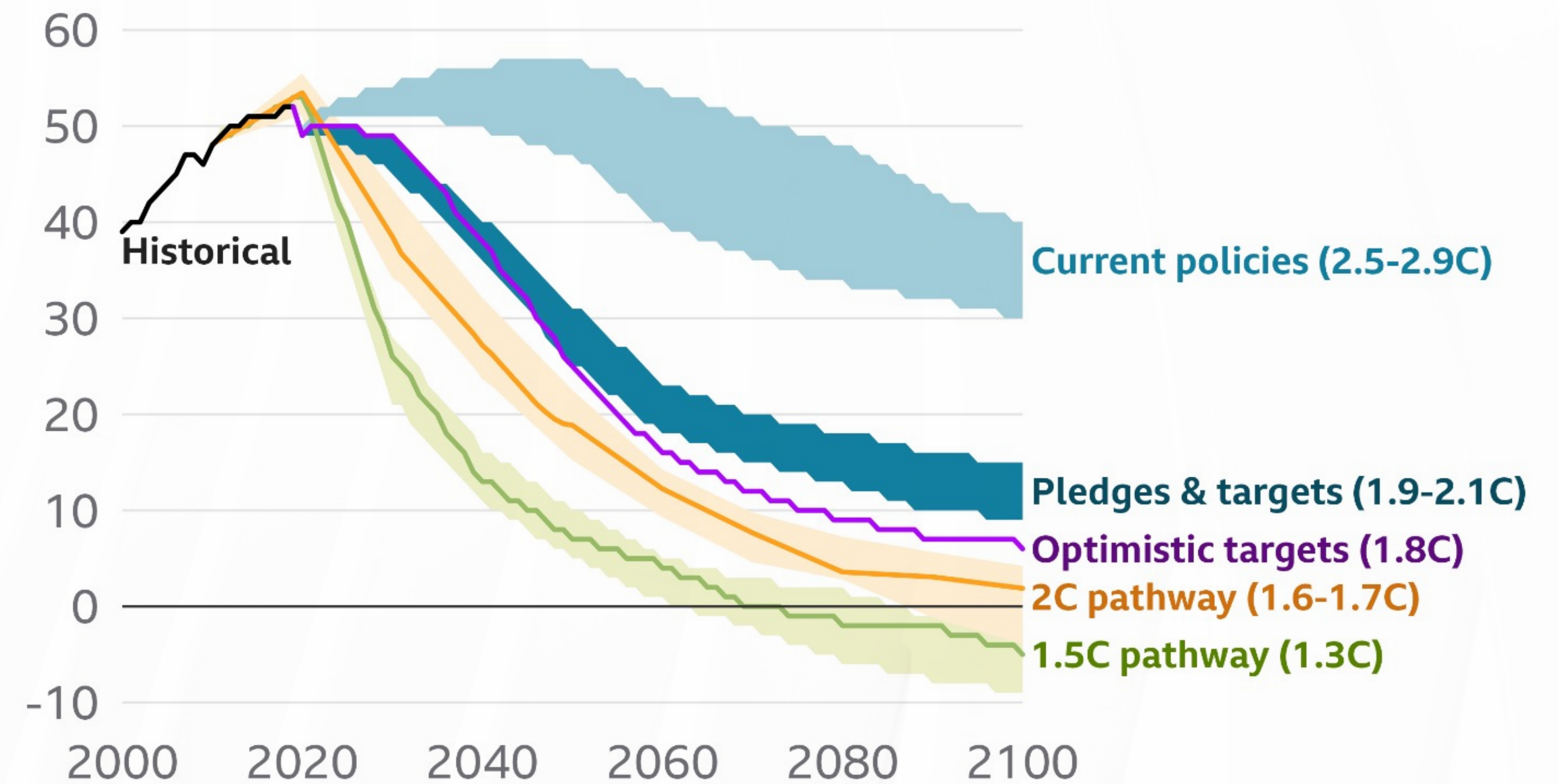
**Social threats:** Health, Vulnerable population, Employment, Education.

**Threats to Business:** Infrastructure and buildings, Energy, Agriculture and forestry, Insurance, Tourism, Cross-cutting issues for businesses.

**Territorial threats:** Arctic, Europe, the Mediterranean, Islands... Such threats will obviously entail social unrest, Climate migration, famine risks, international conflicts...

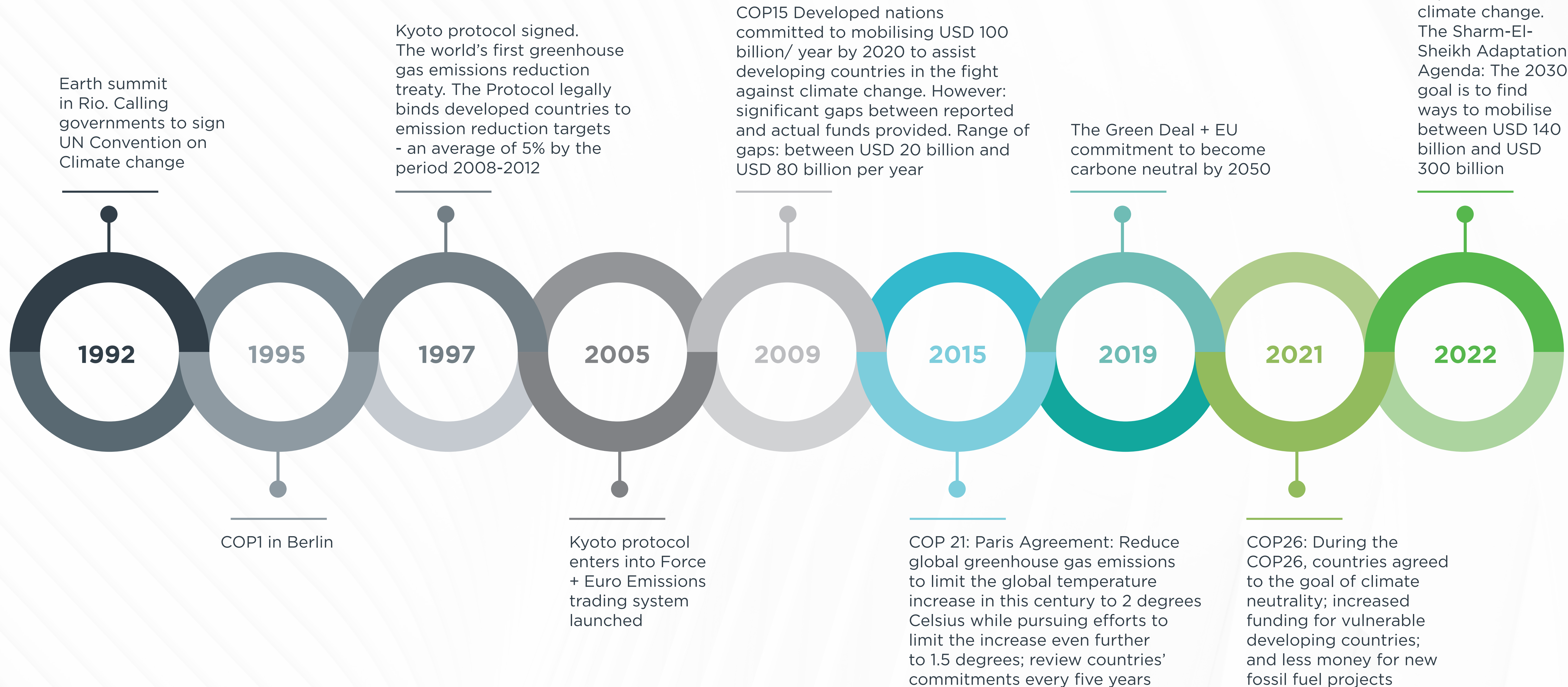
## How the world is projected to warm by 2100

Past and projected emissions in gigatonnes of carbon dioxide



Source: Climate Action Tracker

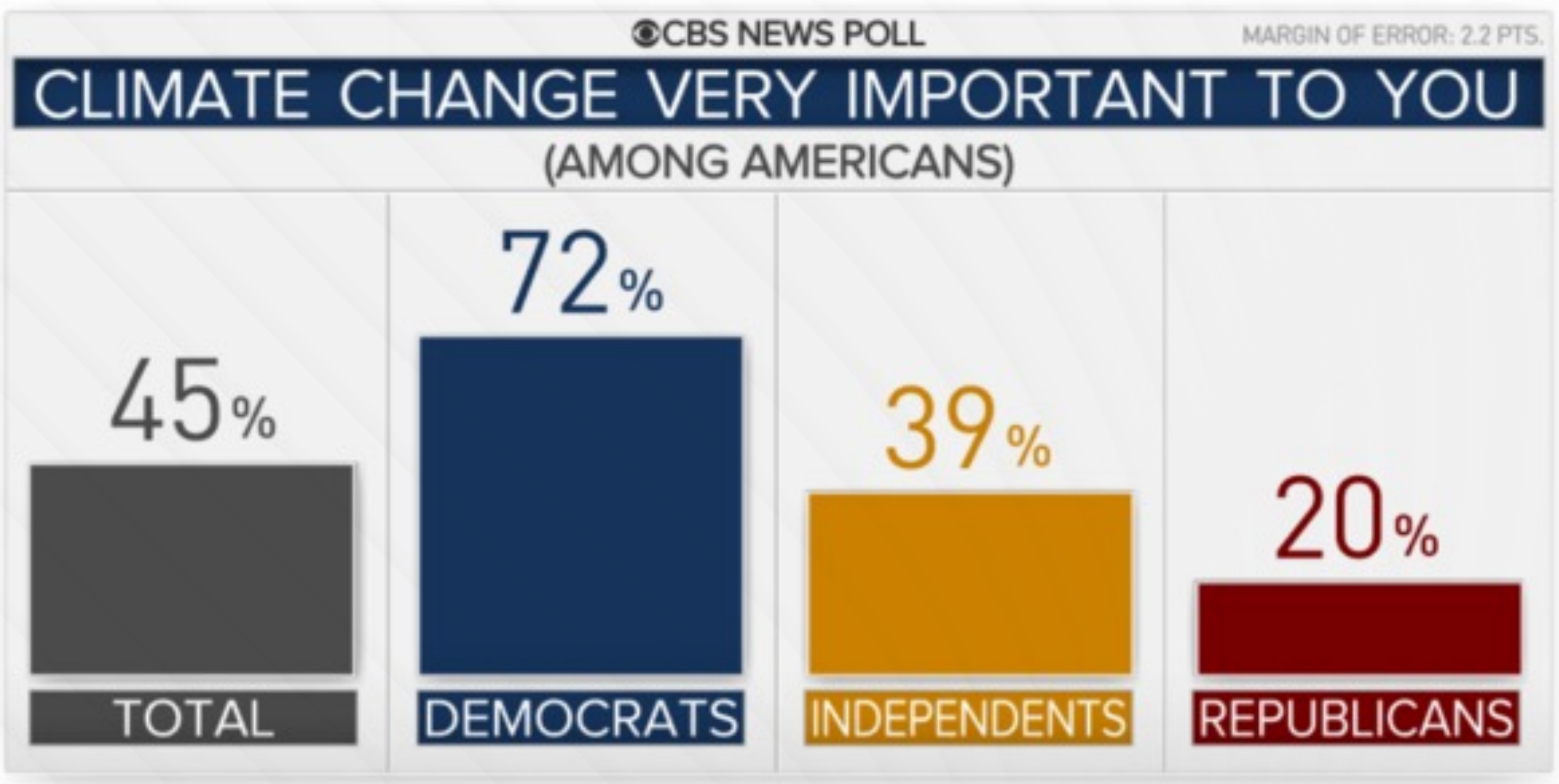
## Major dates of the Global Climate Policy





## Climate Policy divisions

- ▶ The United States → Republicans Vs Democrats (Trump withdrawing from Paris agreement), then Biden returning in 2021).



- ▶ Post industrialized nations (developed) Vs Developing Economies → The debate over which countries have contributed most to greenhouse gas emissions and how the costs of mitigating and adapting to climate change should be shared:

- 1 Developing countries expect from postindustrialized nations: to lead efforts to reduce GHG emissions, technology transfer, provide funds to mitigate and adapt to climate change. 90% of funds for mitigation although for developing nations the need is important for adaptation.
- 2 African countries emphasized need to be free to pursue economic development at least to some degree through new and existing fossil fuels deposits.
- 3 Latin American countries consider that they contributed little to GHG emissions and talk about Climate justice = need for developed countries to pay their environmental & ecological debt to developing countries affected by climate change and help them remedy its effects.

# THE GEOPOLITICS OF ENERGY

In order to mitigate climate change and in the drive for decarbonization, Energy transition plays a major role.

To achieve carbon neutrality goal = having a balance between emitting carbon and absorbing carbon from the atmosphere in carbon sinks, the energy security factor needs to be taken into account.

In the case of EU cutting the Historic dependency on Russia means finding alternatives (local and international). War also means reallocating resources (war effort for both sides) and increasing energy cost.

## The Energy Security factor:

### The IEA defines energy security as:

The uninterrupted availability of energy sources at an affordable price.

- ▶ Long-term energy security mainly deals with timely investments to supply energy in line with economic developments and environmental needs. (Climate policy and energy transition).
- ▶ Short-term energy security focuses on the ability of the energy system to react promptly to sudden changes in the supply-demand balance. (Promptly Cutting dependency on Russian energy supplies).

### Abolishing The long established strategic Interdependency: Energy for Hard currency, Tech and Peace

- ▶ Soviet-Western “understanding”: Interdependency as a Win-Win stabilizing factor.
- ▶ Historical grudges (Poland, Baltic nations Vs Russia) impact Russian-European energy ties.
- ▶ An increasing desire in Europe (and Washington) to cut the energy dependency\*: A conflict with Gazprom related to the abuse of dominance position (hinders competition) and Moscow using energy as a geopolitical weapon.
- ▶ Washington wishes to increase its energy sales (LNG) to the EU.
- ▶ The cancelling of South Stream pipelines project in 2014.
- ▶ Sabotage of Nord Stream 1,2 pipelines (September 2022).
- ▶ EU’s target to cut gas consumption 15% (August-March) beaten & reduction reached 17.7%. In 2026 EU’s Energy security to be guaranteed (LNG supply/capacity of U.S and Qatar-going up).

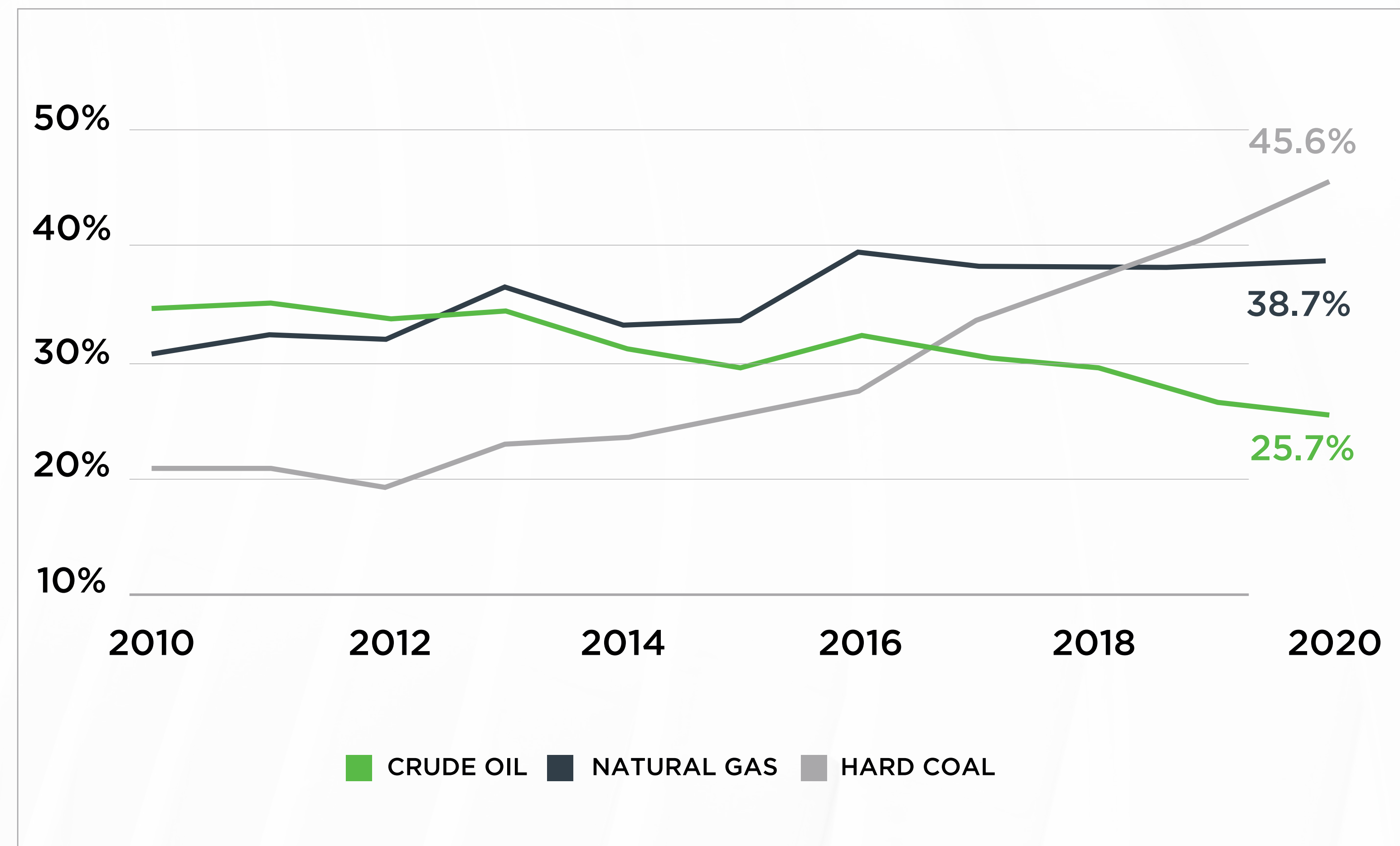
\*Prior to the Russian-Ukrainian conflict, Russia was Europe's number one supplier of Natural gas, Crude oil and hard coal

### Europe's Gas Pipeline Ties To Russia



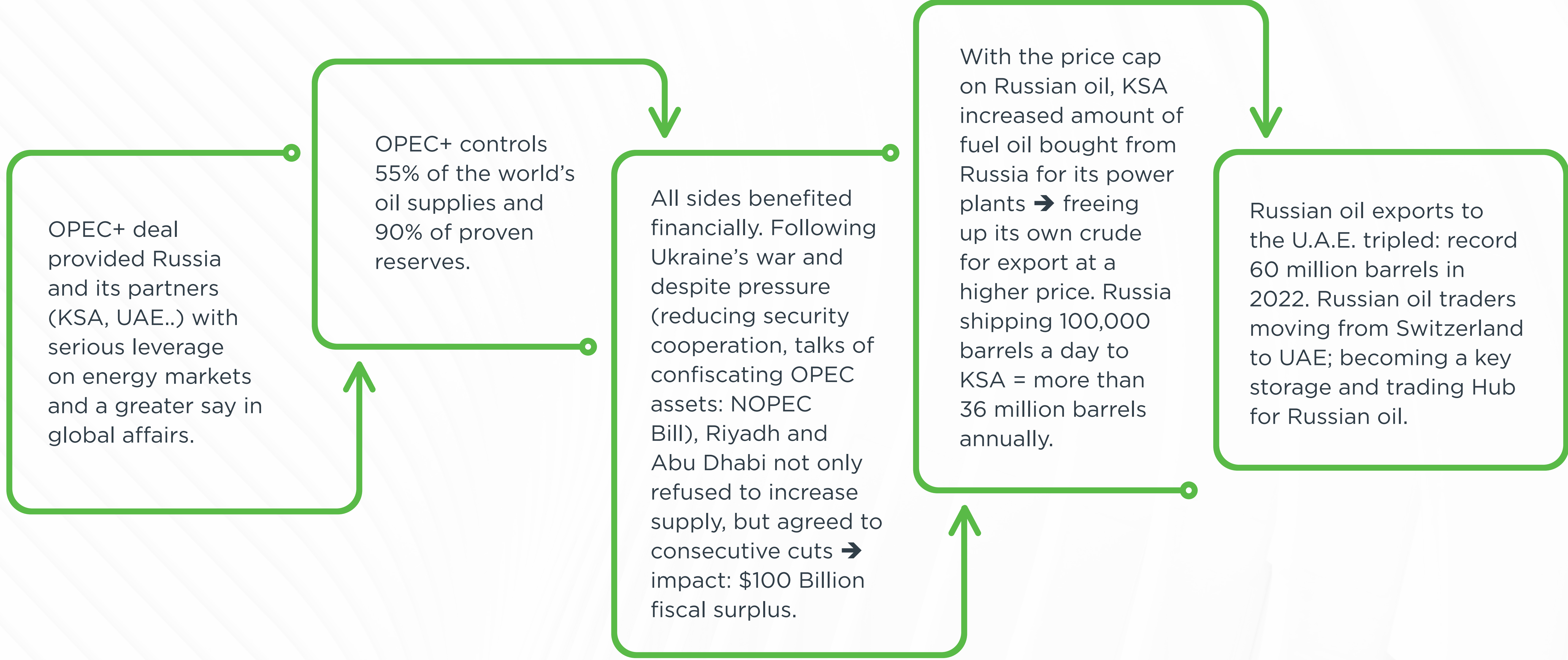
Source: S&P Global Platts

### Russia's share of EU's Energy imports



Source: EPRS | European Parliamentary Research Service

# THE OPEC+ DEAL: RESHUFFLING THE CARDS

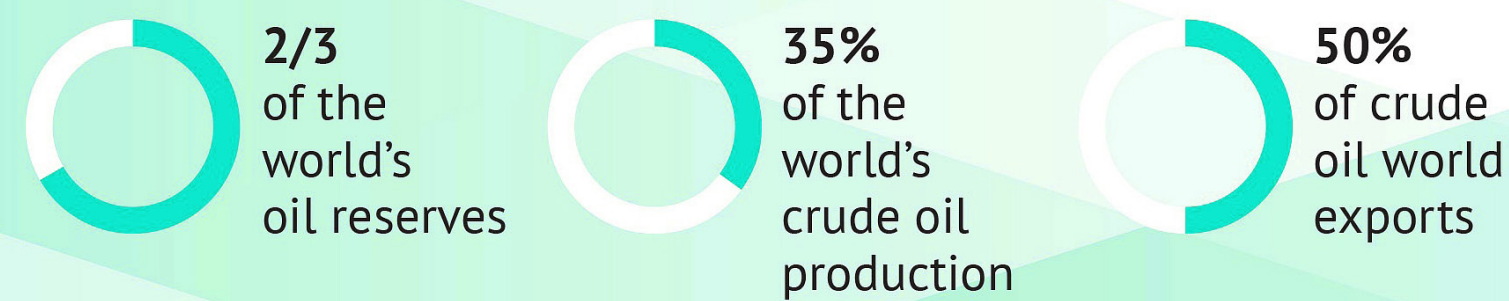


# OPEC+

## Members of OPEC

- |             |                         |                      |
|-------------|-------------------------|----------------------|
| 1 Algeria   | 6 Iraq                  | 11 Nigeria           |
| 2 Angola    | 7 Republic of the Congo | 12 Saudi Arabia      |
| 3 Venezuela | 8 Kuwait                | 13 Equatorial Guinea |
| 4 Gabon     | 9 Libya                 |                      |
| 5 Iran      | 10 UAE                  |                      |

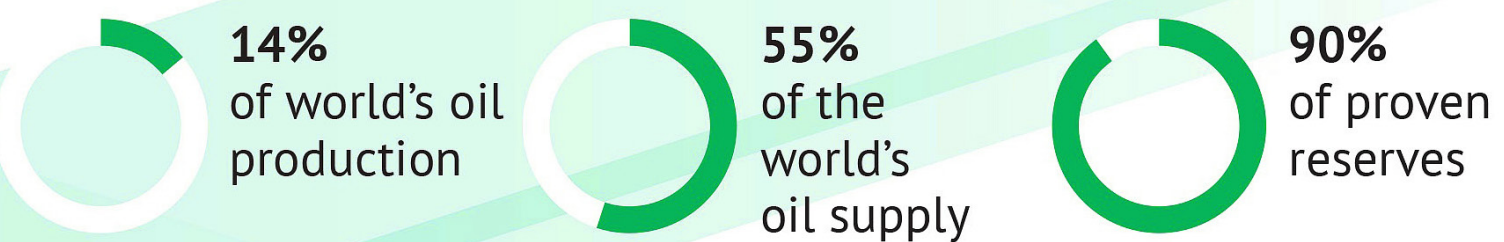
## OPEC controls



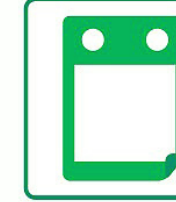
## Members of OPEC+

- |              |                |
|--------------|----------------|
| 1 Azerbaijan | 6 Mexico       |
| 2 Bahrain    | 7 Oman         |
| 3 Brunei     | 8 Russia       |
| 4 Kazakhstan | 9 Sudan        |
| 5 Malaysia   | 10 South Sudan |

## OPEC+ controls



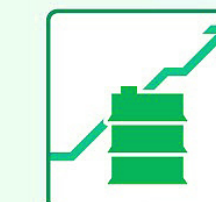
OPEC + in October 2022 decided to reduce the oil production quota by 2 million barrels per day, extended the deal to 2023 and now meets not monthly, but every six months



OPEC+ is an expanded format of OPEC, formed in November 2016



OPEC+ has the privilege of regulating the level of supply and maintaining stability in the oil market. At its core is an alliance between its two main players – Russia and Saudi Arabia



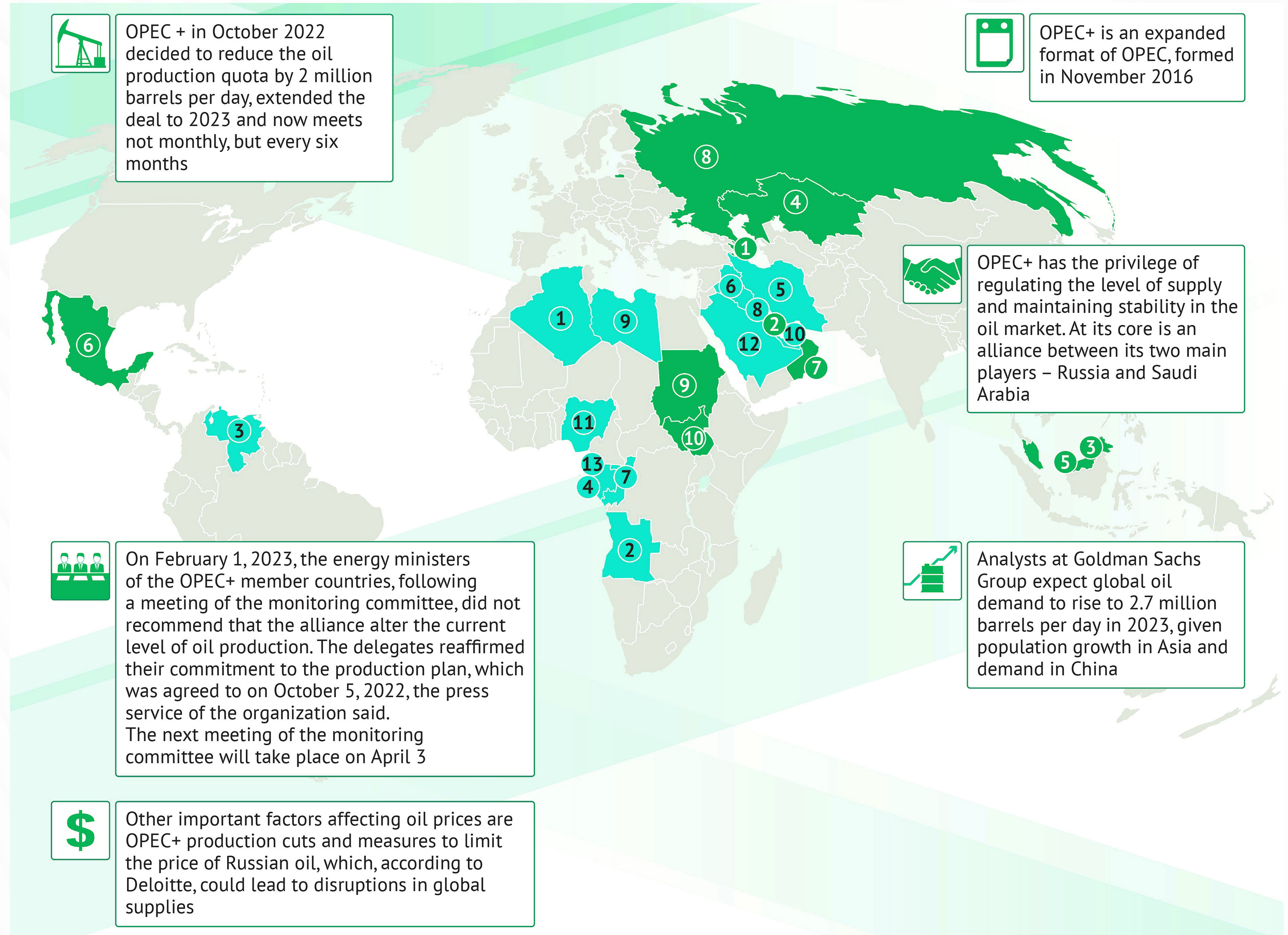
Analysts at Goldman Sachs Group expect global oil demand to rise to 2.7 million barrels per day in 2023, given population growth in Asia and demand in China



On February 1, 2023, the energy ministers of the OPEC+ member countries, following a meeting of the monitoring committee, did not recommend that the alliance alter the current level of oil production. The delegates reaffirmed their commitment to the production plan, which was agreed to on October 5, 2022, the press service of the organization said. The next meeting of the monitoring committee will take place on April 3



Other important factors affecting oil prices are OPEC+ production cuts and measures to limit the price of Russian oil, which, according to Deloitte, could lead to disruptions in global supplies



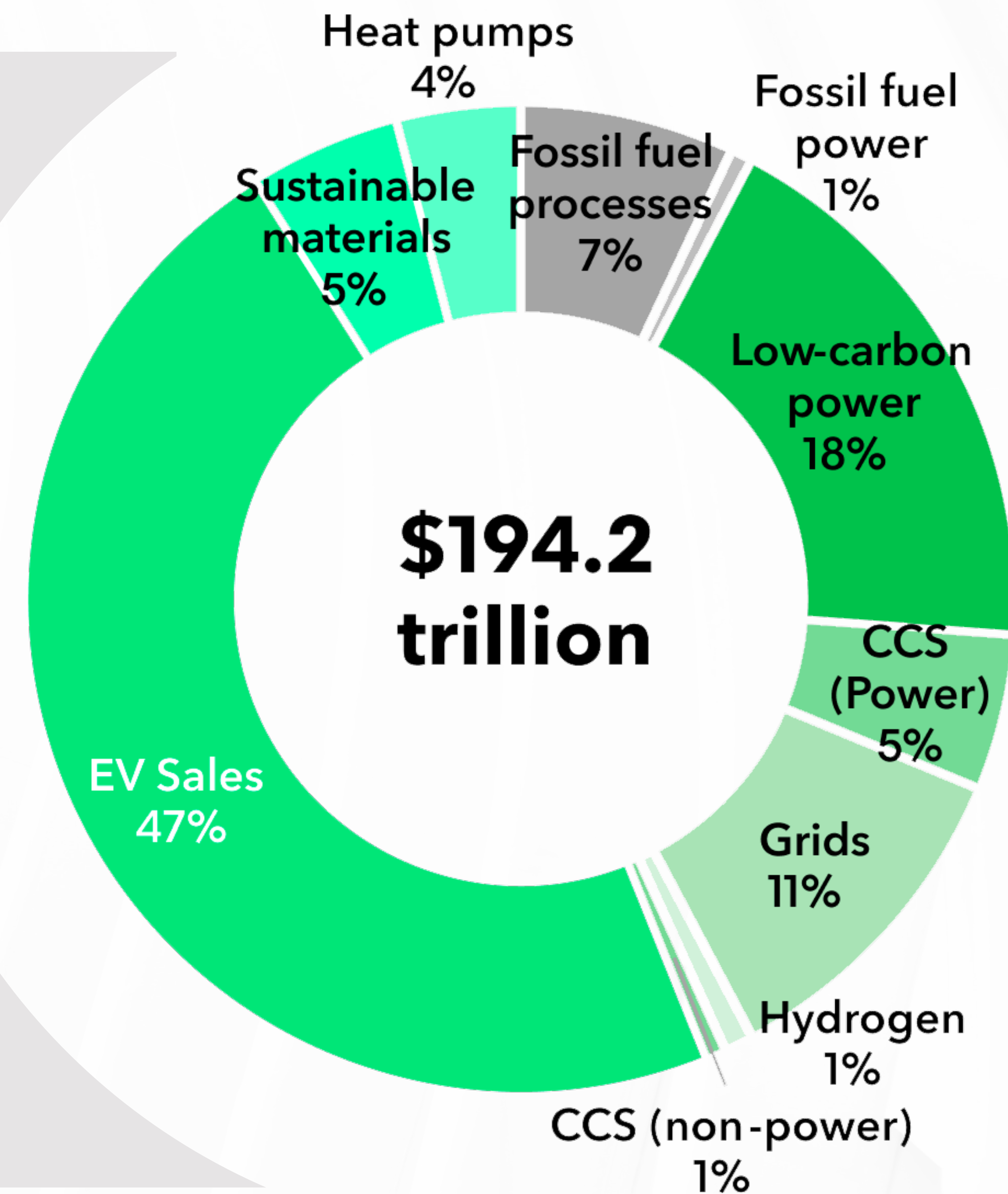
## CLEAN AND RENEWABLE ENERGY OPPORTUNITIES

140 countries committed to reach a net zero emissions target by 2050. China in 2060 and India in 2070.

The EU launched the 1 Trillion Dollar Green deal to transform the bloc from a high- to a low-carbon economy. The Biden administration signed the Inflation Reduction Act: largest ever climate-focused investments, allocating \$370 billion to areas including renewable energy and industrial decarbonization solutions.

Investment opportunities: \$194 trillion to 2050 (mainly in EV)- Net Zero scenario: Raw materials extraction, refining, Tech development, manufacturing, deployment.

Investing in transition would add 85 million jobs in renewables & other transition-related Tech between today and 2030. > losses of 12 million jobs in fossil fuel industries.



**However, the transition is leading to tensions amid increased competition**

Tensions between the U.S and the EU. Fears that IRA will contribute to the deindustrialization of Europe.

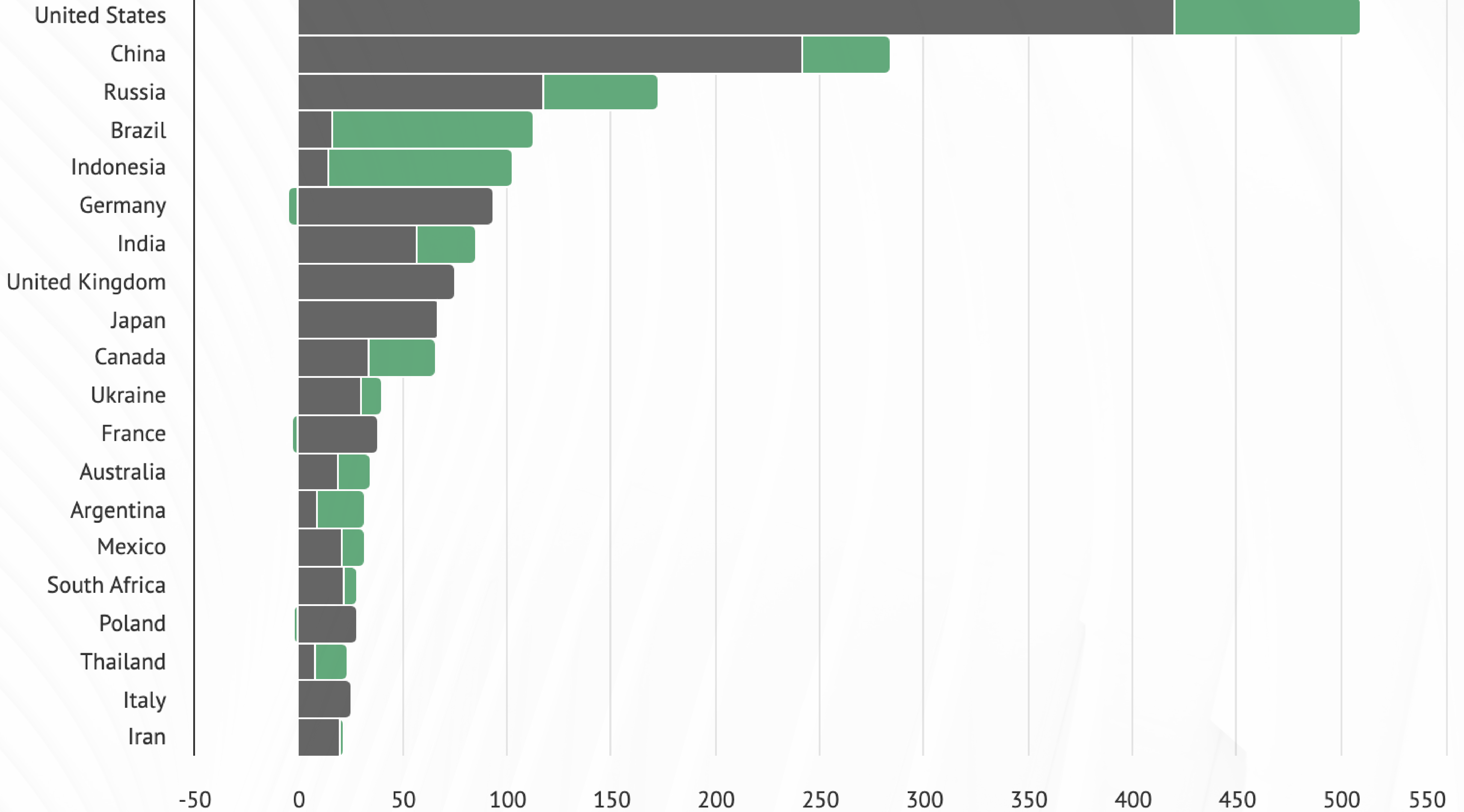
Responsibility for Global Warming is a strain in ties between developed & emerging economies. Historic responsibility in carbon emissions Vs needs of Emerging nations to develop. (Graph). China's CO<sub>2</sub> output X 3 since 2000, overtaking US. The principle of Common but differentiated responsibilities (CBDR): all states are responsible for addressing global environmental destruction yet not equally responsible. (Capacities and their levels of contribution to the problem).

China, India and other emerging economies want their share of the pie. Protectionist tendencies in trade increasingly used (each country favors using its own climate technologies and to avoid importing (Australia)).

# The countries with the largest cumulative emissions 1850-2021

Billions of tonnes of CO2 from fossil fuels, cement, land use and forestry

● Fossil ● Land





# ENERGY TRANSITION: REDRAWING A NEW GEOPOLITICAL MAP

Energy transition will be one of the major elements that reshape geopolitics in the 21st century, alongside trends in demography, inequality, urbanization, technology, environmental sustainability, military capability, and domestic politics in major states.

## Far reaching geopolitical implications:

The rapid growth of renewable energy is likely to alter the power and influence of some states and regions relative to others.

Fossil fuel exporters will be vulnerable, unless they reinvent economy for a new energy era.

The emergence of markets in hydrogen and other clean fuels could bring about shifts in political relations and alliances between countries.

Abundance of low-cost renewable power = centers of green hydrogen production.

Renewable energy sources can be deployed at almost any scale. → Democratizing effects of renewable energy

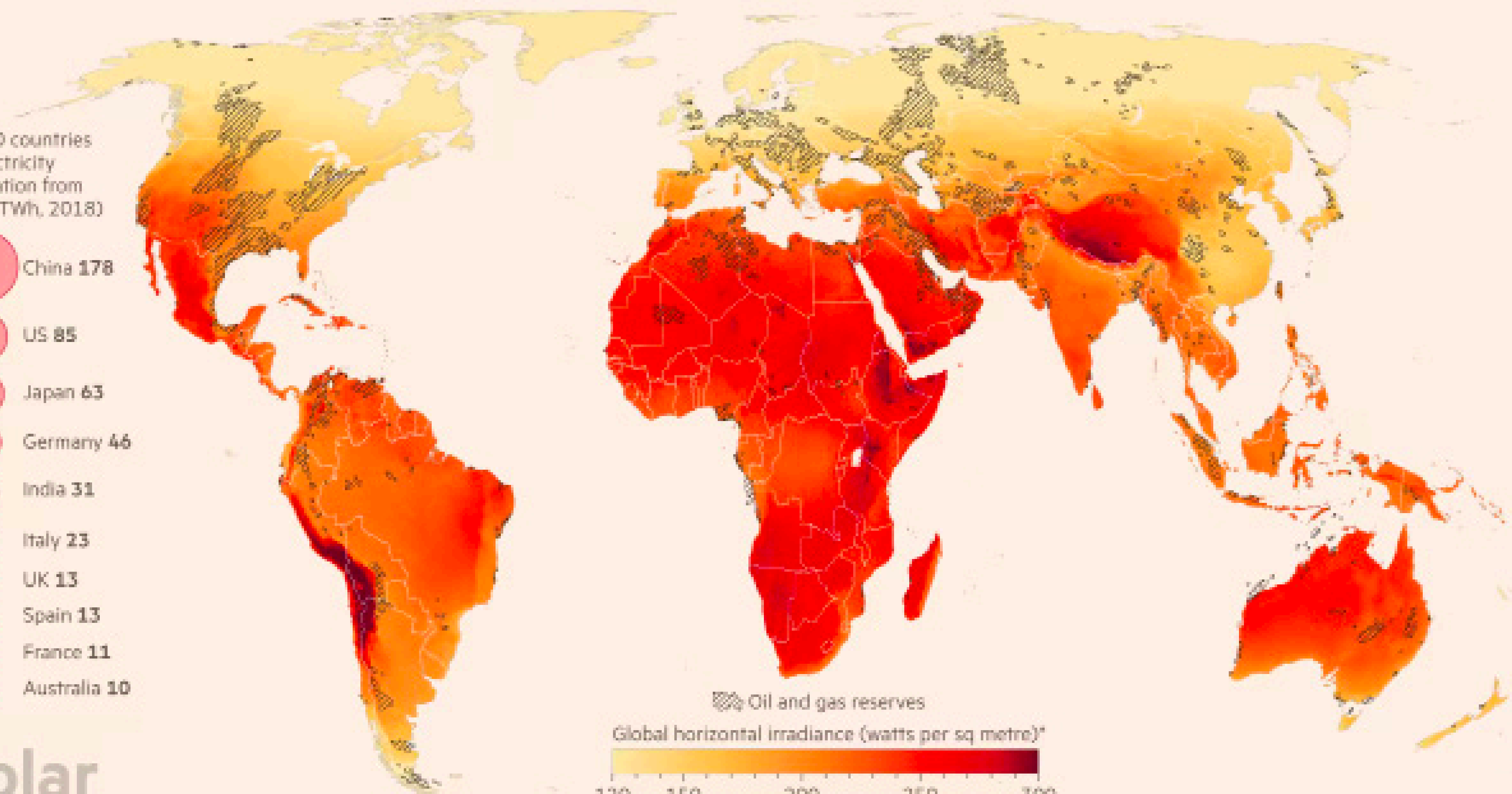
The emergence of a “Hydrogen Diplomacy” (diplomatic missions, envoys: Germany, Japan, The Netherlands). Some countries are pursuing diplomatic avenues to advance their hydrogen strategies. (Setting up value chains for Hydrogen Trade, best place for production, cooperation)

## Where wind and solar could lead the renewables charge

Top 10 countries by electricity generation from solar (TWh, 2018)

- China 178
- US 85
- Japan 63
- Germany 46
- India 31
- Italy 23
- UK 13
- Spain 13
- France 11
- Australia 10

# Solar



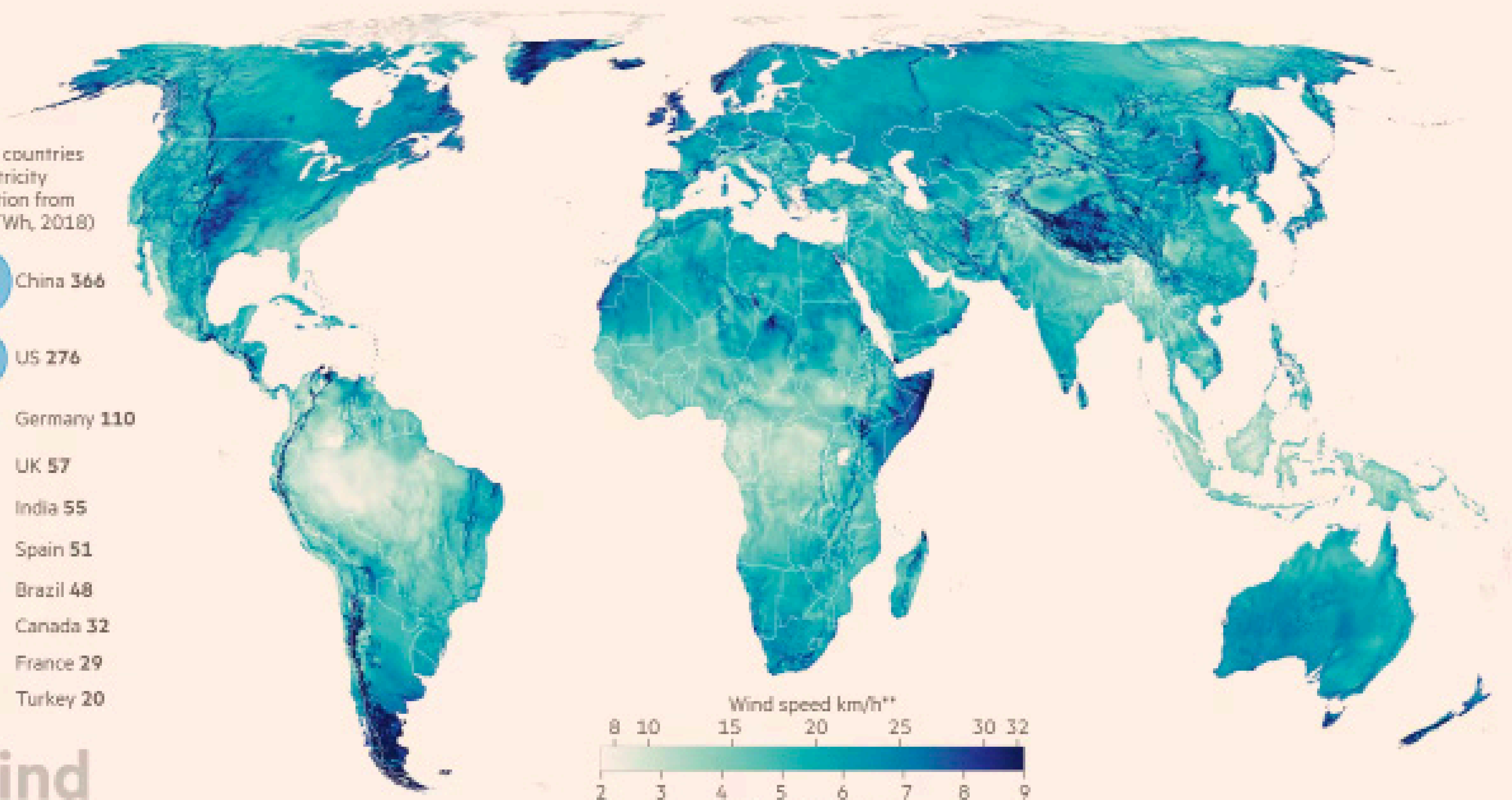
Oil and gas reserves  
Global horizontal irradiance (watts per sq metre)\*  
120 150 200 250 300  
\*A measure of solar power potential, 1997-2009 average

Top 10 countries by electricity generation from wind (TWh, 2018)

- China 366
- US 276
- Germany 110
- UK 57
- India 55
- Spain 51
- Brazil 48
- Canada 32
- France 29
- Turkey 20

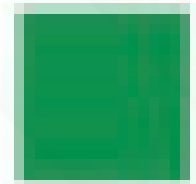
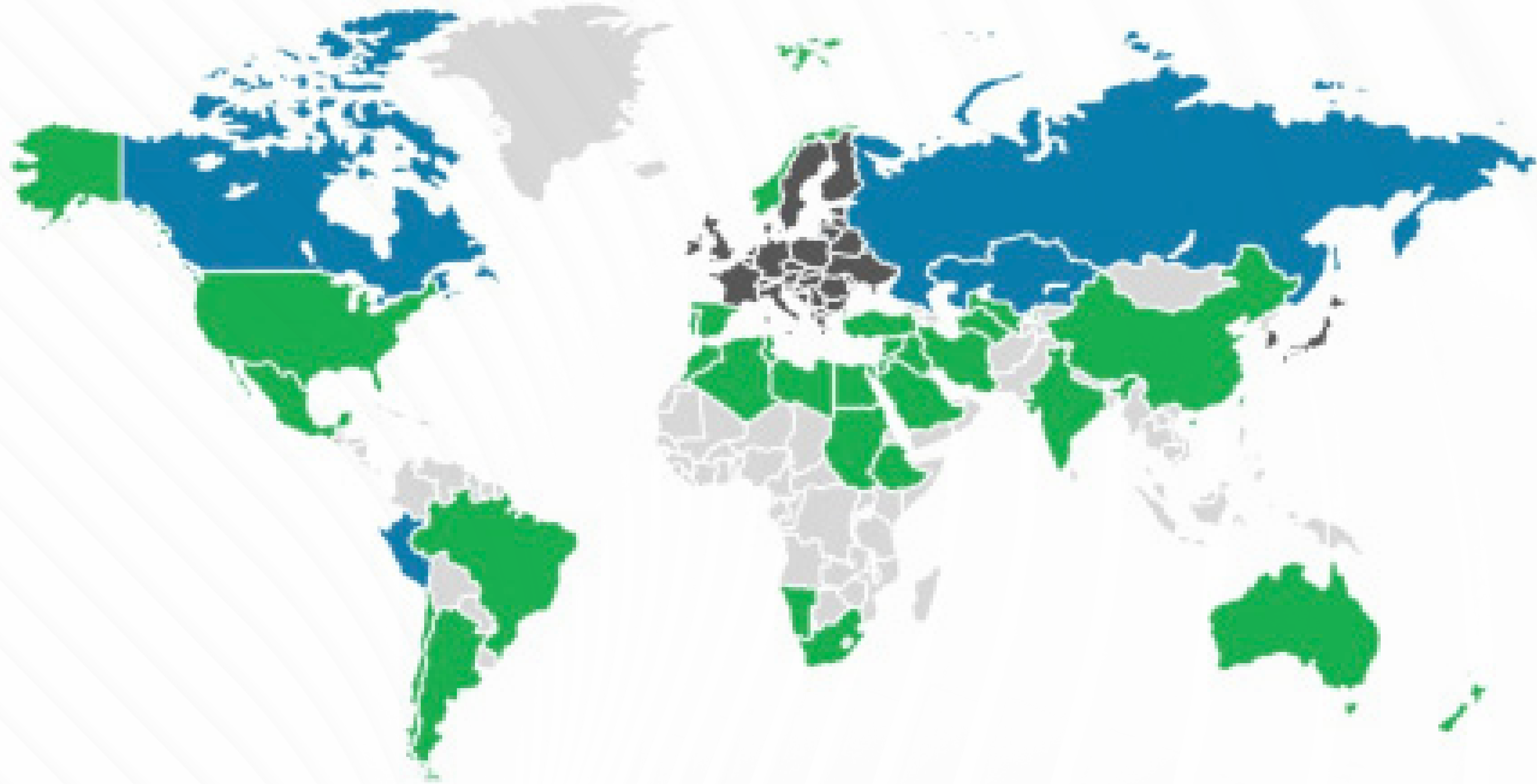
# Wind

Sources: Vaisala; International Renewable Energy Agency; PricewaterhouseCoopers  
© FT



\*\*1997-2006 average

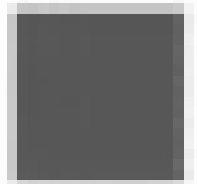
Cartography: Steven Bernard



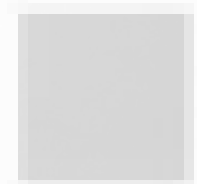
Significant renewable energy potential



Significant low-carbon H<sub>2</sub> production potential



Insufficient local H<sub>2</sub> production



H<sub>2</sub> production potential and demand to be determined

# THE IMPACT OF RUSSIA-NATO CONFLICT

The conflict in Ukraine, increasingly looks like a disguised WWII. Western allies are using all means at their disposal to beat Russia in Ukraine (financial and military assistance, sanctions, political support...). Russia on the other hand, despite increasing difficulties, is still able to conduct its military operations thanks to redirecting its energy exports and to the support of some of its partners.

## Political-Economic impact and learned lessons:

Russia turning East and Western call for the decolonization of the Russian Federation.

Increase in distrust between "The Global South" & "The West" . Global Divide (Russia Vs West).

Don't put all your eggs in One basket: BRICS, SCO becoming more attractive. Emergence of new trade corridors (Graph).

Unexpected reconciliations taking place, new sponsors, and the emergence of a new world order? → Dominated by China and the United States?

Investors from both sides fell victim to sanctions and counter sanctions. The West blocked \$58 billion worth of sanctioned Russian oligarch assets and \$300 billion of sovereign assets. Russia is confiscating Western assets.

Energy and Food security threatened (See Graph). Disruption of global energy and food supplies as Ukraine and Russia are major exporters of the later.

China is closely watching the sanctions impact, the Western support in anticipation of a possible conflict with the West over Taiwan.

Not all "neutral countries" remained neutral (Switzerland, Finland, Sweden..)

Import Substitution (domestic and external) is important for capable nations. Russia's case: Since June 2015 > 1,852 and learn from other nations (Iran)

## BLESSING IN DISGUISE?

Western Price caps and EU's decision to stop purchasing Russian energy products (more accurately great reduction/or purchasing Indirectly (India)) pushed India and China to greatly increase their Imports at discount. KSA and UAE (direct/indirect benefits)



**India:** India's imports of Russian oil to reach a record 2 million barrels/day (April 2023), > X 6 (a year earlier). It refines Russian oil and sells part of it to Europe

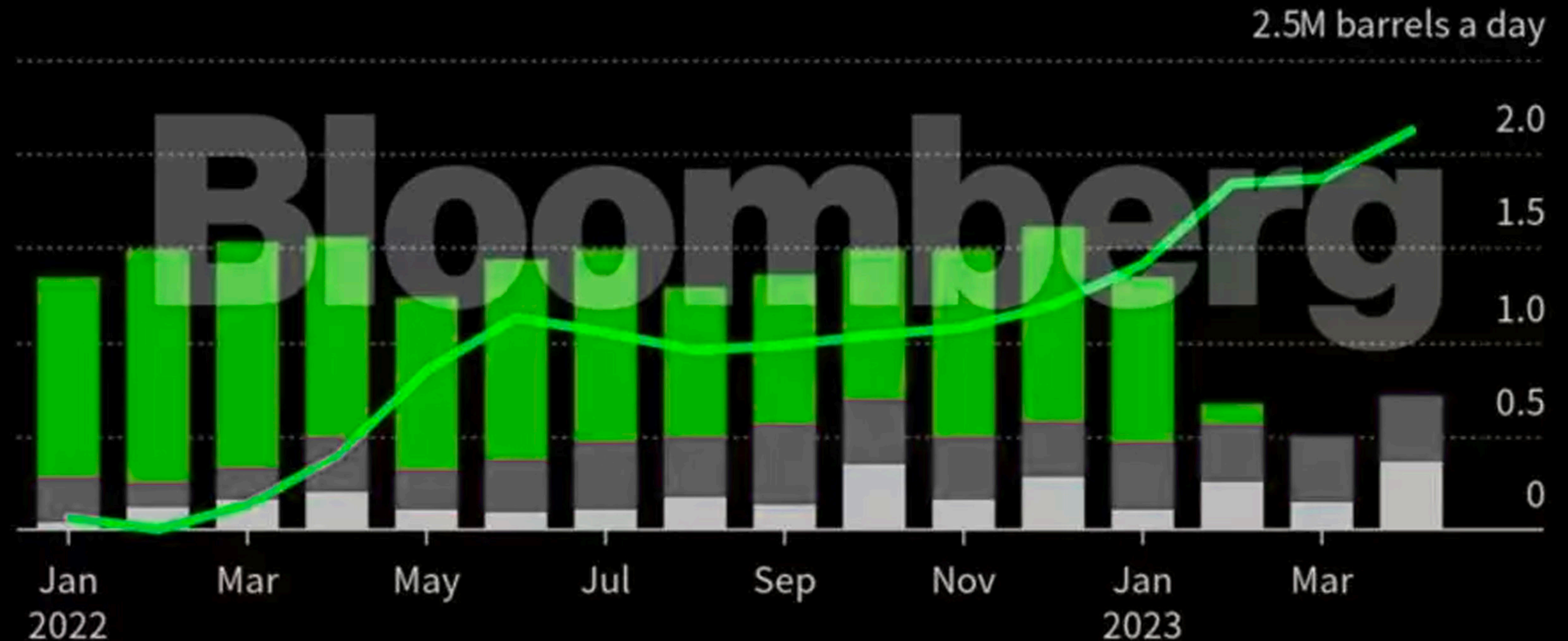


**China:** Q1 2023 Russia leapfrogged KSA to become China's number 1 supplier of oil. Chinese imports of Russian energy mix up 50% in a year.

### India Becomes Europe's Top Fuel Supplier

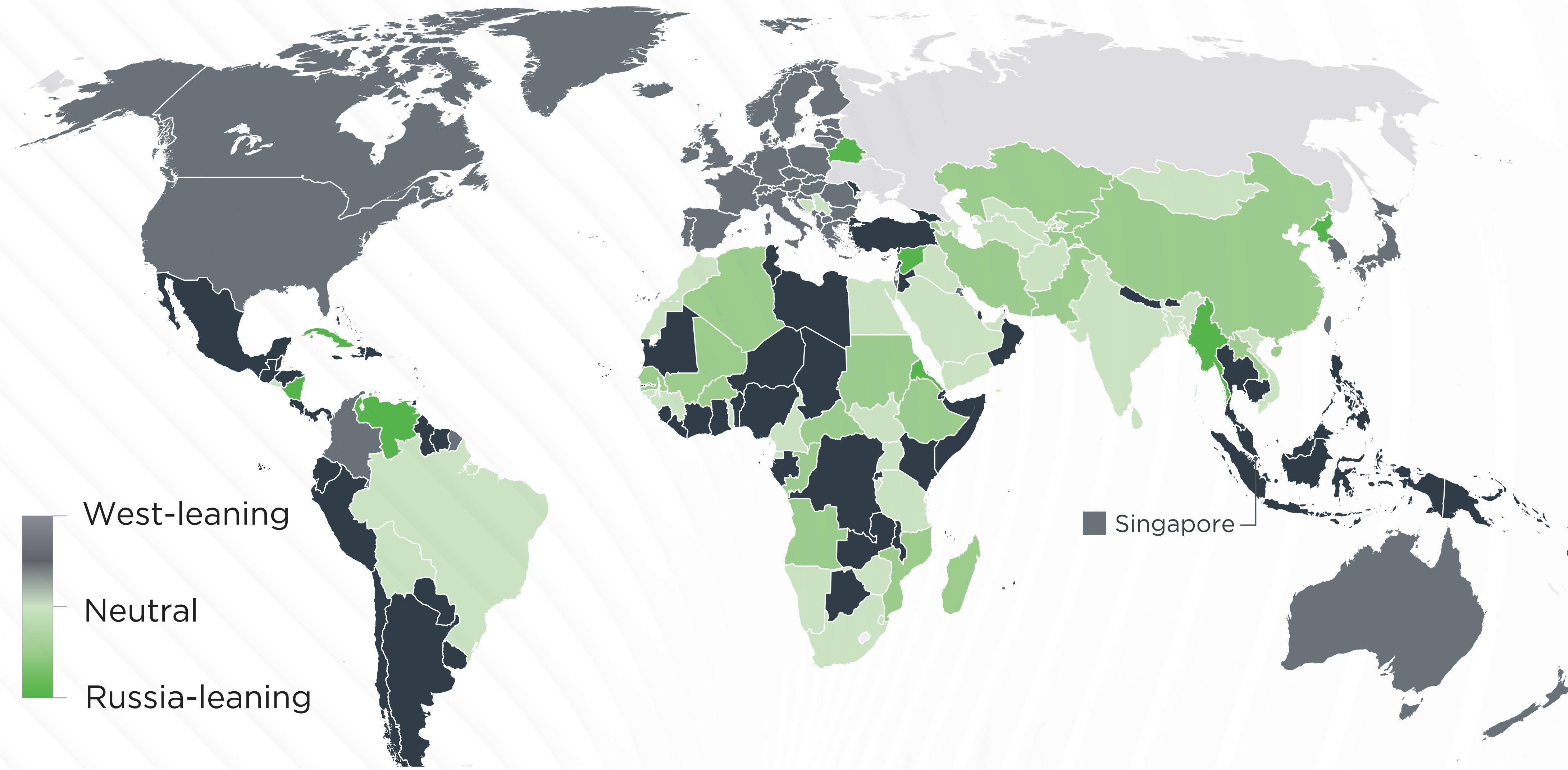
Europe's reliance on Indian oil products have grown since Russian ban

/ India's crude oil imports from Russia  
 ■ European clean fuel imports from India  
■ Saudi Arabia  
 ■ Russia

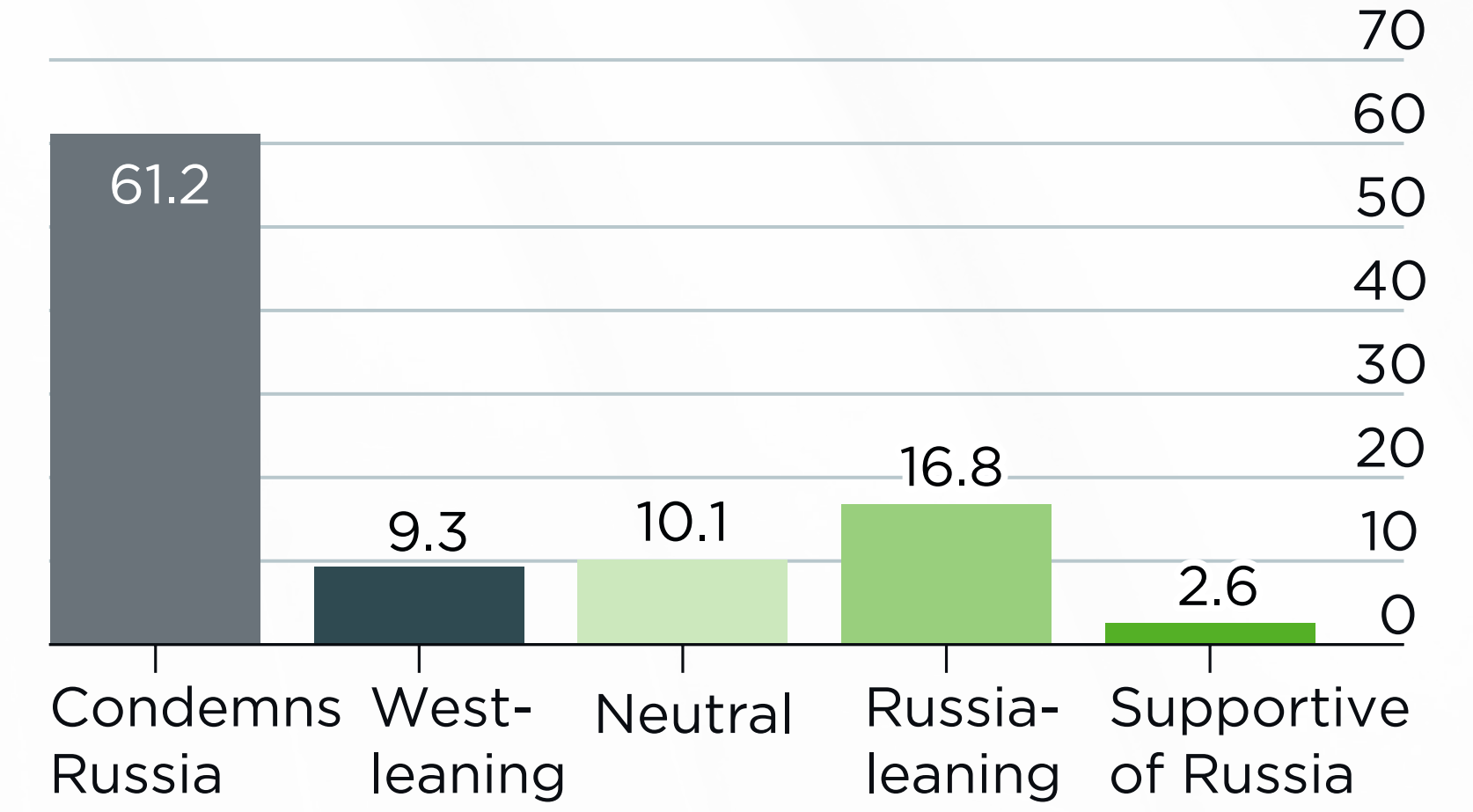


Source: Kpler data, compiled by bloomberg

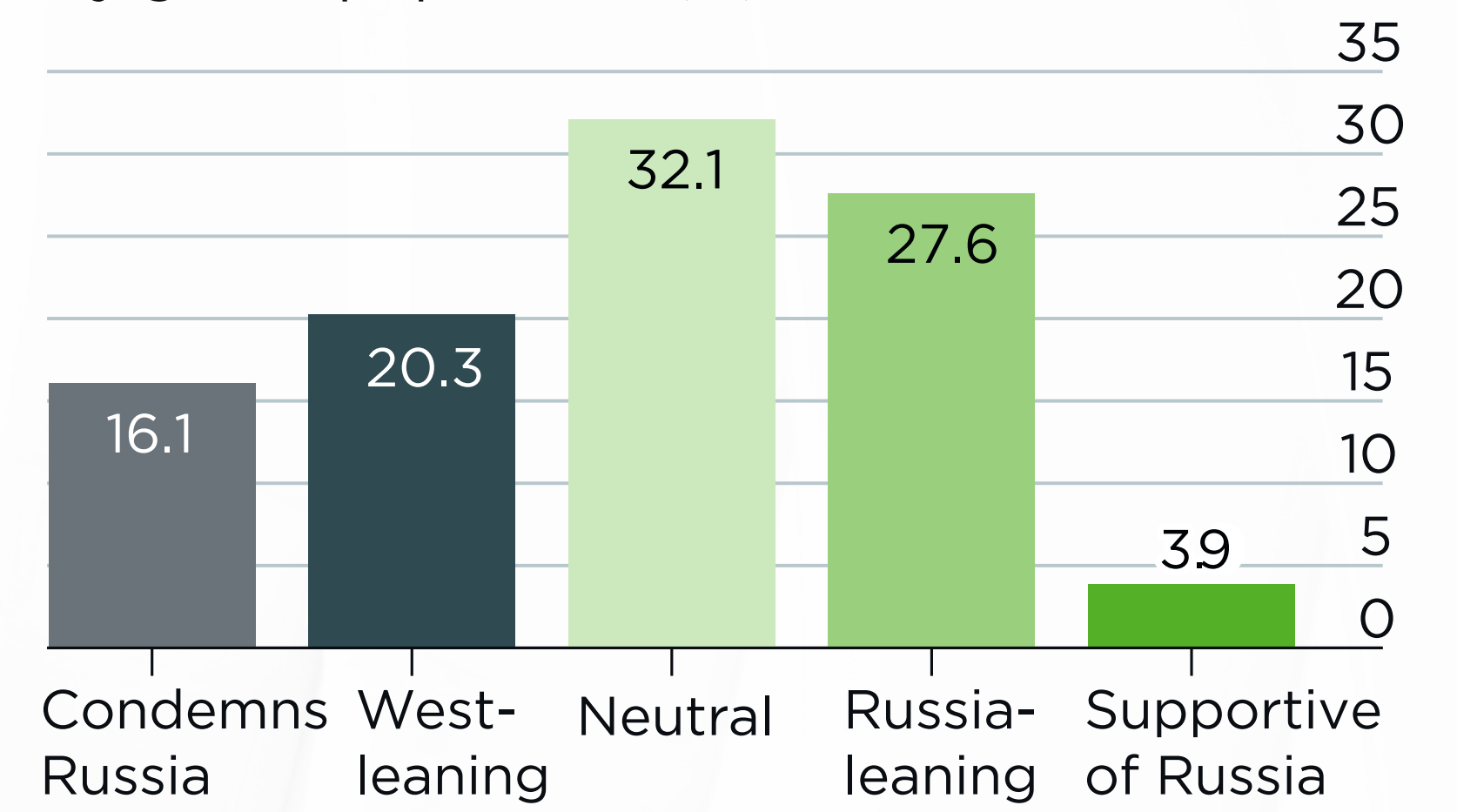
# Two-thirds of the world's population live in countries that are neutral or Russia-leaning regarding the war in Ukraine



By global GDP (%)



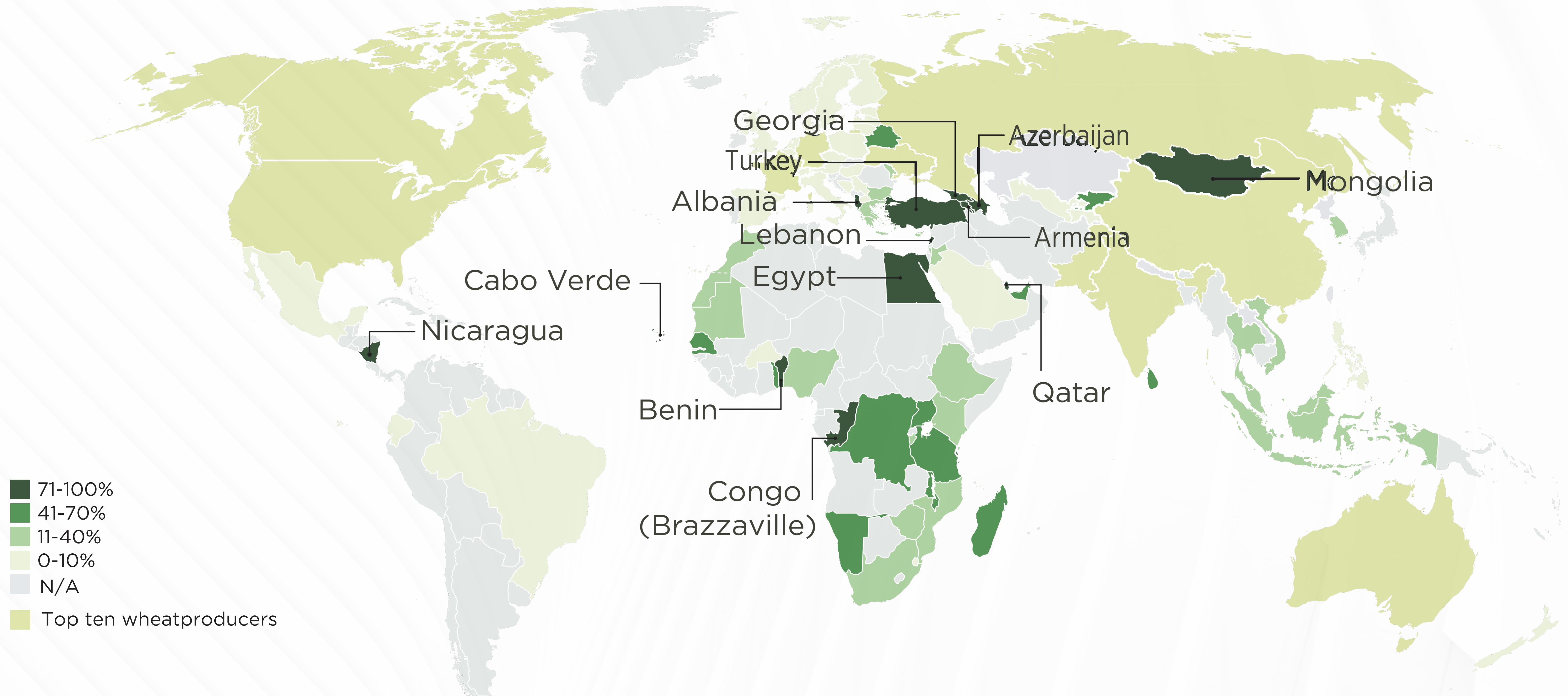
By global population (%)



Source: EIU.

## GLOBAL FOOD SECURITY RISKS

Over half a billion people live in countries that rely heavily on Russian and Ukrainian wheat (% of total wheat imports from Russia and Ukraine, 2021)



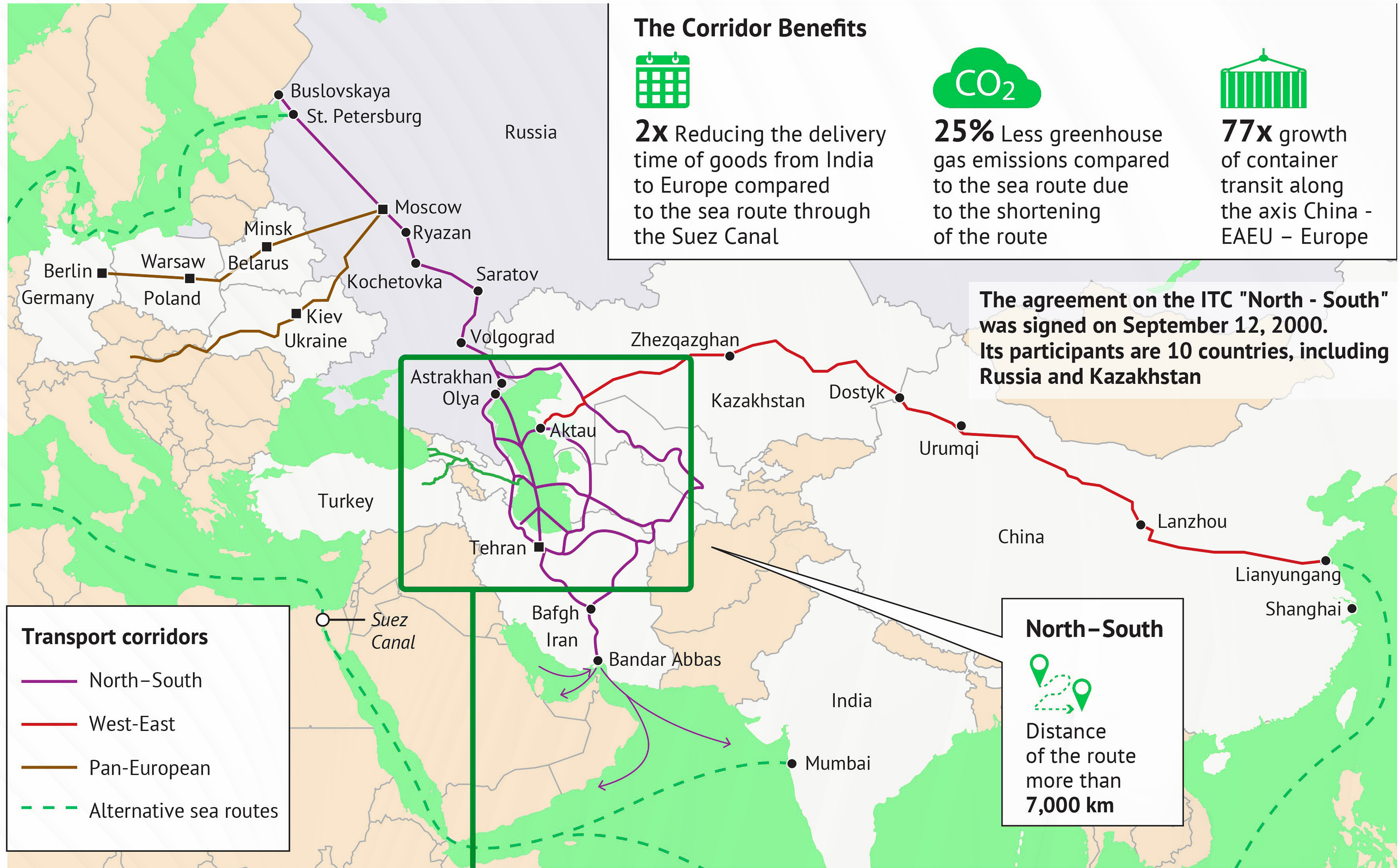
\*Data exclude Kazakhstan, which is a net wheat exporter.



# THE INSTC PROJECT

## International North-South Transport Corridor

The North-South Multimodal International Transport Corridor (ITC) connects the northwestern part of the Eurasian Economic Union (EAEU) and Scandinavian countries with the states of Central Asia (CA), the Persian Gulf and the Indian Ocean.



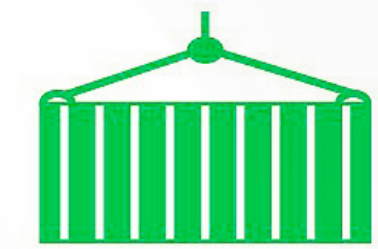
### The Corridor Benefits



**2x** Reducing the delivery time of goods from India to Europe compared to the sea route through the Suez Canal



**25%** Less greenhouse gas emissions compared to the sea route due to the shortening of the route



**77x** growth of container transit along the axis China - EAEU - Europe

The agreement on the ITC "North - South" was signed on September 12, 2000. Its participants are 10 countries, including Russia and Kazakhstan

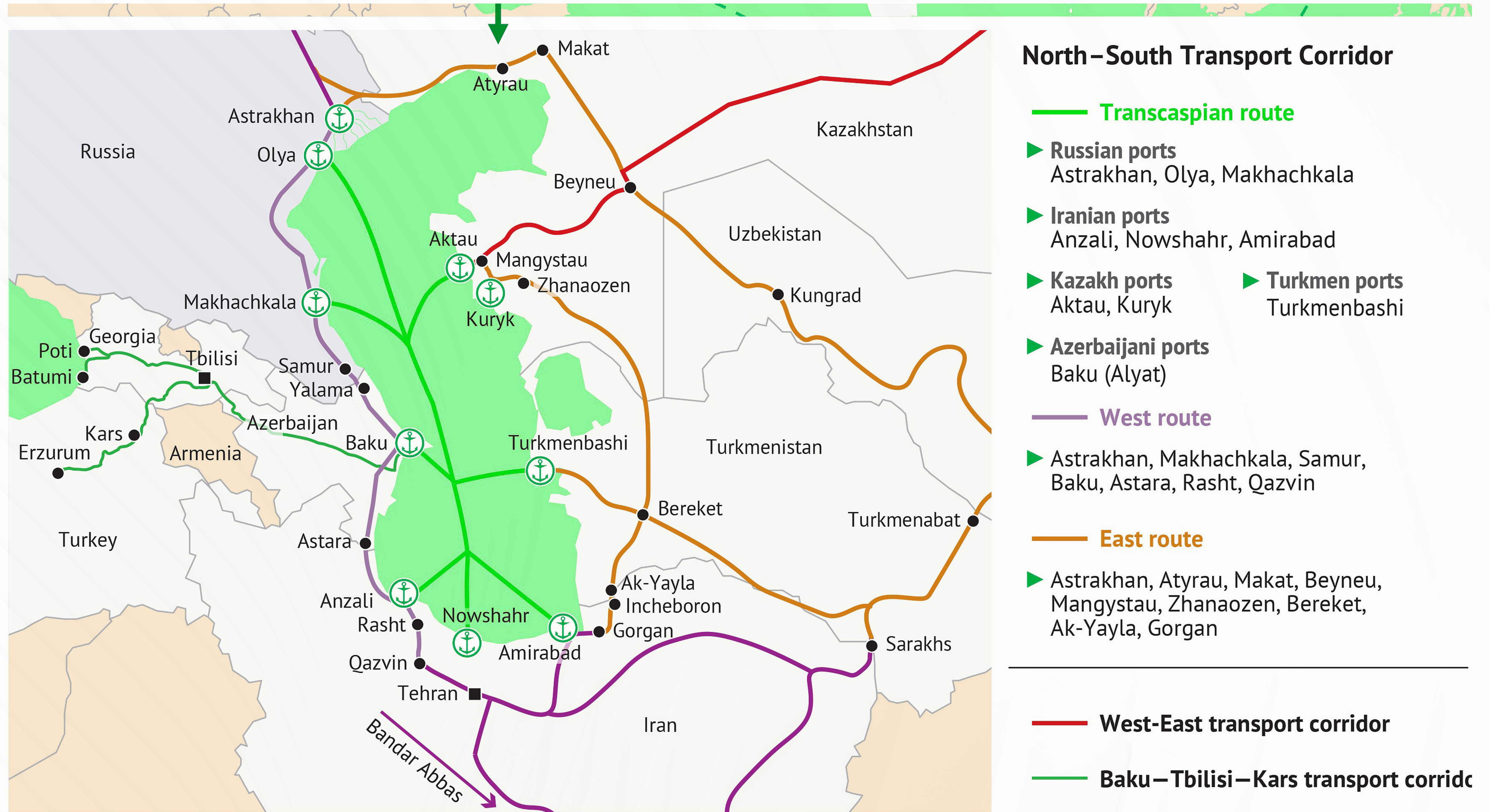
#### Transport corridors

- North-South
- West-East
- Pan-European
- Alternative sea routes

#### North-South



Distance of the route more than **7,000 km**



**Assessment of the of cargo transportation potential by 2030**

Source: Russian Railways, open souce.

## OTHER GEOPOLITICAL RISKS WORTH MENTIONING

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- ▶ Pakistan's political crisis, with the recent arrest (then release) of former PM Imran Khan
- ▶ Georgia's domestic politics and the risks of Russia-Ukraine war impact. Moldova as the next Ukraine? Azeri-Armenian conflict and Central Asia's rifts.
- ▶ Middle East tensions (Israeli/Palestinian conflict) despite Saudi-Iranian détente, Saudi-Syrian rapprochement.
- ▶ Sudan's military standoff and the risks it entails to neighboring countries
- ▶ Libya's instability and the role of regional powers. Migration crisis risks
- ▶ North Korea's tensions with its neighbors
- ▶ A growing US presence in the Philippines (5 new bases)
- ▶ European fragmentation: "between the strategic autonomy and reliance on Washington"
- ▶ The Geopolitics of AI and the rise of digital Sovereignty
- ▶ Rising risks of Cyber and Terror attacks

# RECOMMENDATIONS FOR INVESTORS

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# MCKINSEY'S RECOMMENDATIONS ON HOW GLOBAL COMPANIES CAN MANAGE GEOPOLITICAL RISK (2021)

## Start with the Board

Many company boards deliberate geopolitical risks, but they mainly focus on a specific investment, project, or market entry or exit. Therefore, they fail to examine the broader strategic landscape, full range of risk scenarios and consequences →

### Ask following questions:

How we got there (History), Where we are now? (known knowns and unknowns)? Where we are headed? What to do about it?

## Use a trifocal lens to assess potential risks

The company should not only handle a fast-changing situation or emergency but also make the investments needed to seize opportunities and become more resilient →  
The need to take short-term, mid-term and long-term actions

## Think critically about the corporate narrative

Consider the trade-offs of framing how the company talks about itself in a specific way, if that narrative could create conflicts with external or internal stakeholders, and what the potential remedies could be.

## Deploy refreshed risk frameworks and guidelines

If companies operate in markets that are high risk because of political instability or the threat of international sanctions, they can develop market-specific assessments or “compacts” that fuse corporate strategy and risk management → Example: include a traffic-light-style warning system with red, yellow, and green lights that represent escalating risk levels.

## Secure stakeholders' hearts and minds

Geopolitics is personal. A large organization is likely to have stakeholders with differing cultural reference points and opinions on issues such as human rights and privacy. Differences can turn into disagreements.

## OTHER CHALLENGES TO INVESTORS

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### Governments policies

protectionism and trade restrictions, Self-sufficiency/ Autarky (China), Import-Substitution (cases of Iran, Turkey, Russia), joining blocs, walking a tight rope (KSA/UAE/ India/Kazakhstan..), positive neutrality.

### Elections results and political stability and positioning

Turkey, Georgia, India... Political unstability in some Global South nations.

### National Security Risks

Huawei, ZTE equipment cases

### Sanctions with entailed consequences

Risks (secondary sanctions, unfair competition practices (Iran/Renault-GM)), assets confiscated. Opportunities (UAE, KSA for Russian Energy Wealthy, IT and re-exporting equipment. (playing Grey).

### Play the Great Currency Game

USD?  
Yuan?  
Diversify?

### Ethical conduct consequences

picking a side (political positioning)? What is good & what is bad? When to exit and when to stay/ come back, the risk of getting replaced (Asian replacing Western- Russia)? Shaming SM campaigns.

## THE RUSSIA-UKRAINE WAR: NEGATIVE AND POSITIVE ASPECTS FOR INVESTORS

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Foreign investors were pressured to leave the Russian Market (ethical reasons (ESG), political positioning and shaming campaigns, sanctions and restrictions..). Most large foreign investors decided to leave while many small sized companies remained. Some are being replaced by Asian investors (ex Auto Industry).

On the other hand, Russia's businessmen saw their own assets frozen in the West.

### Examples of obstacles that face foreign investors

**Potential nationalization of foreign businesses and their assets.** In some cases presidential decrees can severely restrict an investor's ability to restructure or even exit their investments without permission from the Russian government

**Restriction related to the sale-purchase of interests in Russian limited liability companies.** The Russian government imposed a special approval mechanism on purchase-sale of shares in Russian joint stock companies between residents and non-residents from "unfriendly" countries. Russian investors are also facing restrictions in Western nations

**Potential restriction of patents and IP rights.** a framework to essentially take over foreign patents without mandatory royalties is already in place. Parallel import is also enacted.

**Measures aimed at foreign currencies and the capital and financial markets**



## OPPORTUNITIES FOR FOREIGN COMPANIES

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Turning losses into opportunities: The import substitution drive. Example: Foreign lessors have lost a total of 435 planes in Russia. Meanwhile, Russia plans to use over USD 22 billion until 2030 to replace them with domestic models. Russia will need components that can still be exported from “friendly” nations

Creation of companies that import equipment and reexport them to Russia. (Energy sector). Example Emirati “Green Energy Solutions”

A Dubai based subsidiary of Russian shipping Sovcomflot manages no less than 80 ships (including tankers) and India certified them while Russia provides insurance: Less sanctions exposure for shipping Russian oil to India.

The UAE exported 15 times more microchips to Russia in 2022 than a year previously

The migration of IT specialists is a blessing for countries that are in need of skilled technicians

## THE DIFFICULT CHOICES OF THE GLOBAL DECOUPLING

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The global decoupling is forcing investors to make difficult choices, among which we can cite:

Some investors are encouraged to pick a side: China or the West. Example shifting supply chains away from China

Chinese companies leaving U.S stock Markets or facing delisting threats

Some of the Trump era protectionist trade restrictions are still in place, part of the Biden administration decoupling policy. Companies and investors cannot assume that economic interests will be given more importance than national security interests

Using Chinese equipment that is deemed as a national security risk (Huawei, ZTE...) → resulting in unfair competition practices

**MULTIPLY**  
GROUP