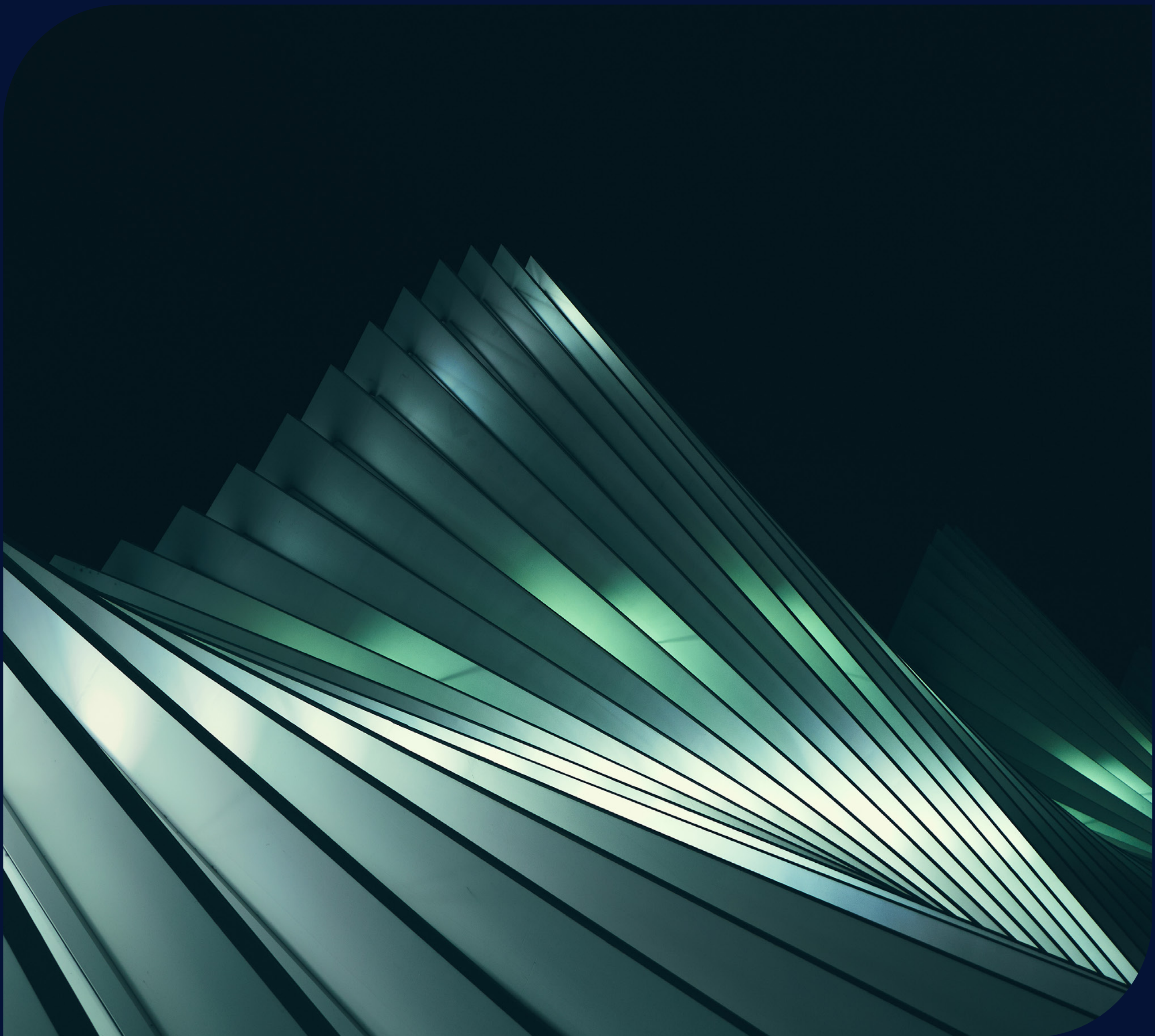
What to Watch in 2023

Outlooks for the year ahead from Teneo's geopolitical risk team

Teneo Insights / December 2022



Foreword
The Global Year Ahead

A year ago, political, corporate and market leaders across the globe contemplated what the buildup of Russian forces along Ukraine's borders would portend.

While the U.S. administration and intelligence community warned that a Russian invasion was likely, many corporate leaders and market participants were nevertheless taken by surprise when it occurred. Shaken by yet another seemingly low-probability risk made manifest, major economic actors attempted to get ahead of the next crisis, with many concerned that the erosion of the sanctity of international borders meant an invasion of Taiwan could be next.

That risk remains highly unlikely in the near-term, and it should not distract from the risks still emanating from the war in Ukraine, such as dislocations in energy and other commodities markets and fiscal and political risks in Europe. The trajectory in Sino-American relations pertains not just to territorial and sovereign disputes, but the access to and control over the critical products and resources of our time: semiconductors and the refined metals, minerals and elements required for the sustainable-energy transition, in particular.

In the pages that follow, our team of analysts highlight what they are tracking as we head toward 2023. As we contemplate the risks and opportunities that may unfold this coming year, it is worth stepping back and considering the global context. The role that the United States will play in designing, championing and perpetuating the evolving global system, the uncertainties of a rising, but perhaps not inexorable China, the risks of an energy transition devoid of centralized design or leadership and the disruption of technologies' impacts on the very nature of societal/governmental relations are in flux now.

The U.S. is being challenged as the economic and strategic hegemon, the existential threat of climate change is looming and the nature of the power of the state is evolving. A clear-eyed assessment of the global operating environment has never been more critical. We can start by remembering that the incentives for political actors to take actions against their perceived economic interests should not be underestimated – whether they be super-empowered, autocratic leaders or voters in the polling booth.

This outlook represents our first look at what's to come in 2023. We will continue to monitor, analyze and update you daily, as we have since 2013.

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Africa

Nigeria – A race like no other

With just under three months to go before Nigeria's 25 February/11 March 2023 general elections, none of the three main presidential contenders has taken a clear lead on his rivals. The outcome will likely come down to the wire and possibly result in the first run-off since 1999.

Bola Ahmed Tinubu, the candidate of the governing All Progressive Congress (APC) party, should ordinarily be able to rely on his party's incumbency for a significant advantage at this point. However, declining support for the APC, the party's decision to field two Muslims as running mates (in a country with strong sensitivities around religion and regional identities), allegations of a drug dealing past and concerns about his health are all denting Tinubu's personal appeal.

In any other election cycle, these conditions would likely set the main opposition People's Democratic Party (PDP)'s presidential candidate, Atiku Abubakar, on a path to victory. Yet, the former vice president and two-time battle-tested presidential contender is far from guaranteed victory given the emergence of a "third-force" in the form of Labour Party (LP)'s Peter Obi, which has set the scene for a highly contested race.

One thing is clear: this election cycle is like no other. This means that historical voting patterns cannot be relied upon to provide accurate clues regarding the possible outcomes of next year's presidential race. A three-horse race, the existence of an unprecedented combination of individuals as running mates and a surge in new young voters will mean that historical voting maps are likely to be redrawn.

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South Africa – Conference may not deliver upsides

With President Cyril Ramaphosa nearly unseated by a report into the Phala Phala scandal in early December 2022, the outcomes of the African National Congress (ANC) elective conference – even if Ramaphosa were to win over his rivals, including Zweli Mkhize and possibly Paul Mashatile – will likely dash hopes that South Africa's president might be able to consolidate his administration via a significant cabinet reshuffle and focus firmly on delivering reforms. After all, the ANC's problems are structural, the government's decision-making culture is slow and crisis-driven, and Phala Phala and other scandals will continue to loom over the administration in 2023, eroding Ramaphosa's authority and political standing even if he clings on. This suggests that the administration will be characterized more by drift than determination.

At the same time, the ANC faces a fast-approaching electoral reckoning, namely the hitherto unprecedented risk of losing its parliamentary majority in the 2024 elections. A minor drop in electoral support to just below 50% should be manageable for the ANC, but any scenario in which the party's support drops more decisively towards 40% would trigger a frantic scramble that could throw up various troubling, unstable coalition scenarios. Such possibilities will feed into policymaking in 2023, all while the government tries to contain public finance strain and the continuing energy crisis.

Debt doldrums

Concerns are rising about a possible wave of sovereign defaults across Africa as many economies are facing the triple whammy effects of a weakening economic recovery, rising food and energy prices and already-high public debt. The IMF has warned that "regional debt is approaching levels last seen before the impact of the HIPC initiative…" while the UNDP's "Avoiding Too Little Too Late on International Debt Relief" report deems that 25 African countries face severe debt strains, including the DRC, Ethiopia, Gabon, Ghana, Kenya, Mozambique and Zambia. Ghana will see particular market scrutiny as the government embarks on debt restructuring in 2023.

A consensus is building around the need for comprehensive debt relief, including for middle-income countries. Yet the existence of a wide range of creditors – multilateral development banks, the Paris Club, China, India, Russia and myriad commercial lenders – will make for complicated negotiations and slow progress. The G20 Bali summit suggested a continued focus on the voluntary redistribution of USD 100bn worth of Special Drawing Rights (SDRs) to the countries in greatest need, as well as a reliance on the international financial institutions (IFIs) as the prime channels for financial first aid.

For now, the main tool remains the G20's Common Framework for debt restructuring. Zambia is one of three testcases, and negotiations there may set a crucial precedent for how Beijing coordinates with Paris Club creditors. As CR restructurings drag on, International Monetary Fund (IMF) Managing Director Kristalina Georgieva has called for a "debt service standstill during negotiations" as well as "clear and timebound processes that foster confidence and facilitate implementation, including participation of private creditors."

Debt vulnerabilities increasingly tie in with the climate crisis given countries' deepening exposure to climate-driven natural disasters, exemplified by record floods in Nigeria and South Africa, and severe drought in the Horn of Africa in 2022. COP27's in-principle agreement on a loss and damage fund has been hailed as a major breakthrough after nearly three decades of lobbying. However, the key parameters – how the fund will operate, who will finance it and who will be eligible for funding – are yet to be negotiated. A lower-hanging fruit may be reforms of IFIs to provide financing to developing economies for climate change mitigation or extreme weather events and increasing the reliance on the IMF's new Resilience and Sustainability Trust (RST).

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Asia

China – Re-focusing on growth, stabilizing foreign relations

After a year dominated by political jockeying ahead of the 20th Party Congress and the struggle to maintain the zero-Covid policy, China will re-focus on economic growth in 2023. The combination of the zero-Covid policy and a cratering housing market dragged GDP growth in 2022 far below the official target of 5.5%, but policy paralysis ahead of the Party Congress appeared to prevent aggressive action in response. Following the Party Congress, however, policymakers unveiled a series of measures to support the property market, while street protests pushed them to accelerate the timeline for exiting zero-Covid.

Markets are cheering the long-awaited exit from "dynamic zero," but the transition is likely to be bumpy. Due to the country's success in containing the virus, China's population lacks herd immunity, so the ongoing shift to a coexistence policy is prompting a surge in cases that threatens to overwhelm the healthcare system.

On foreign policy, Xi has restarted foreign travel and hosted a series of foreign leaders in Beijing. Meanwhile, Xi moved to distance himself modestly from Russia's war in Ukraine by condemning Moscow's threat to use nuclear weapons. A meeting between Xi and U.S. President Joe Biden appeared to signal both sides' intention to prevent further worsening of bilateral relations. Tensions over Taiwan will continue to simmer, but both Washington and Beijing have committed to maintaining communication, including between their two militaries, to prevent any unplanned escalations that could lead to crisis.

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A busy year for election politics in Southeast Asia

Only Thailand and Cambodia are scheduled to hold elections in 2023, but the ripple effects around the recent Malaysian elections and the upcoming 2024 presidential elections in Indonesia will also have significant effects on these countries' respective political outlooks. The risk is highest in Thailand, where political allies of former prime minister Thaksin Shinawatra appear set to make a major comeback in elections that must take place by May 2023 at the latest. His daughter, Paetongtarn, is polling the highest among likely candidates to be the next PM, but could be frustrated by the military-appointed senate — a dynamic that raises the prospect of social unrest and political gridlock. In Cambodia, Hun Sen may stand down after 36 years in power to be replaced by his western-educated son Hun Manet, who may present a more palatable face for the country's politics.

Indonesia could be the biggest focus. Elections are in 2024, but the nomination of presidential candidates will occur in October 2023. If the moderate Central Java governor Ganjar Pranowo's presidential prospects flounder, then Defense Minister Prabowo Subianto and former Jakarta governor Anies Baswedan could emerge as favorites, increasing perceptions of a turn towards nationalism and sectarianism in the region's largest economy, which generated substantial optimism in 2022. Malaysia will also continue to suffer the aftereffects of its recent election. With the fragmented outcome of the vote and internal wrangling among the parties, long-term political stability will remain elusive, compounded by the perception that voters have turned towards socially conservative parties.

Dismal poll numbers in Japan and South Korea

Prime Minister Fumio Kishida will begin 2023 with chronically low poll numbers, with voters irked by the ruling Liberal Democratic Party (LDP)'s long-concealed ties to the controversial Unification Church and rising cost-of-living pressures. A forthcoming USD 200bn package of economic countermeasures should help ease the latter. Japan is set to begin a major upshift in defense expenditure and capabilities in response to China's growing military assertiveness and may hike corporate taxes in FY2024 to fund it. Before April, Kishida must also choose the next Bank of Japan governor, with a medium-term reversal of outgoing Haruhiko Kuroda's decade-long ultra-loose monetary policy stance looking possible. If Kishida gets a boost in the polls from hosting the G7 summit in his hometown Hiroshima in May, he could call a snap general election in the summer to reset his administration's fortunes.

South Korea's president Yoon Suk-yeol is also beset by dismal poll numbers and a challenging economic environment in addition to the fallout from the Itaewon Halloween tragedy. These factors will impede his ability to advance a meaningful domestic policy agenda through the opposition-controlled National Assembly in 2023. On foreign policy, Seoul will increase cooperation with the U.S. on defense and economic security matters, though there will be tough choices around export controls and supply chains—particularly regarding semiconductors in the context of the Biden administration's new export control regime and the Chip 4 alliance. Seoul is also likely to seek a deal with Tokyo on the wartime forced labor issue.

In North Korea, Pyongyang will continue testing missiles and even nuclear weapons until it reaches its goals for technological development, further catalyzing an arms race on the peninsula. Seoul, Washington and Tokyo are set to increase cooperation in response.

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In Focus: Global Energy

Geopolitical tensions underpin structural shifts in global commodities markets

Developments in recent years have exposed and expedited dramatic transformations already underway in global commodities markets, many of which are reinforced by geopolitical developments and tensions.

Whether it was the shift to Europe from Asia as the global LNG price-setter in response to the Ukraine war, the preliminary establishment of a "loss and damages" climate reparations fund at COP27 in response to significant and growing climate disasters, or the U.S. Inflation Reduction Act targeting rapid deployment of new U.S.-centric clean energy supply chains to reduce Chinese influence, events in 2022 triggered responses that will set the pace for substantial changes and tensions in global energy markets, with a few trends looking to become significantly more pronounced in 2023.

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Volatility will instigate anticompetitive oil and gas market responses

With volatility and uncertainty continuing to define oil and gas markets in 2023, buyer/supplier relationships and trade policies will remain in the spotlight with a growing risk of market interference and anticompetitive practices.

This could translate into more of the same in the standoff between OPEC+ looking to influence the market through output adjustments and the U.S. and other markets using strategic reserves and other tools to try to counter these market forces to tackle high prices. These dynamics risk entrenching some of these buyer/supplier disputes in a way that could reinforce higher prices and supply disruptions in fossil fuel markets. These tensions could also carry through to assessments of U.S.-Middle East relations, causing some frictions while also pointing to the need for discipline in differentiating between energy market and global security priorities.

In addition, these trends could prompt more attempts by buyer markets to introduce additional market management measures. For example, the EU's proposed gas price cap risks unnatural interference in markets that could have an array of consequences for the global gas trade if eventually introduced in some form.

Minerals and metals supply chains will emerge as a 2023 priority (and beyond)

Competition to secure critical mineral supply chains, which will underpin the global energy transition, will likely be the most heated issue intersecting energy markets and geopolitics in 2023 and beyond.

While a rocky post-pandemic recovery period and the ripple effects of Russia's war in Ukraine prioritized energy security over energy transitions, the push for emissions reductions and a cleaner energy future will pick up pace in the new year, supporting demand for key metals and critical minerals. Although bearish price pressures could continue to impact the metals and minerals market in the year ahead, emerging policy environments strengthening clean energy initiatives and supply chains, particularly in the U.S. and Europe, will lend demand and price support in the long term.

The U.S. and EU are starting to supplant China as the new drivers of metals demand, as consumption growth is set to surge in support of each market's energy transition and electrification agendas and as the Chinese market experiences some headwinds. The U.S. is set to add significant additional wind, solar and energy storage capacity over the next few years under the Inflation Reduction Act, global electric vehicle demand is estimated to increase by some 30% annually over the next few years and the European Union is looking to launch the European Raw Materials Fund, targeting up to EUR 150bn in public and private investments by early 2023.

These trends will reinforce competition and demand for copper, lithium, cobalt and nickel, among others, with shortages starting to emerge as a real and imminent risk. The rush to secure these alternative metals and minerals and corresponding supply chains could not only exacerbate escalating U.S.-China tensions, but also could generate transatlantic frictions in U.S.-EU relations. Both sides will inspect potential discrimination or WTO violations inherent in the very policies intended to support local economies and manufacturers and to reduce perceived energy security risks associated with an overdependence on the Chinese supply.

Expect U.S. and EU tensions over China and transatlantic trade to remain a crucial part of the 2023 critical minerals and metals debate. Accompanying policy and investment decisions will influence these markets directly and likely spill into proxy markets, impacting investments and geopolitical dynamics with countries across Africa, Latin America and beyond.

"Competition to secure critical minerals supply chains, which will underpin the global energy transition, will likely be the most heated issue intersecting energy markets and geopolitics in 2023 and beyond."

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Europe

How (not) to end the war in Ukraine

As Russia's war in Ukraine extends into 2023, its trajectory will continue to be shaped by multiple interrelated factors on both sides, including military capabilities, political and public determination to continue fighting, as well as the availability of financial and economic resources. While none of these factors alone is sufficient to bring about a victory, a failure to sustain any of them could force either side into painful concessions and strategic setbacks.

Following a number of humiliating defeats on the battlefield in autumn, the Russian side is intensifying calls for negotiations. Such calls are backed by devastating missile strikes on Ukraine and threatening rhetoric towards the West. These tactics seek to convince Kyiv and its allies that the risk of continuing the war is too high for all sides. This raises the question of whether any meaningful negotiations are possible with the Putin regime openly questioning Ukraine's sovereignty and claiming to be in an existential struggle with the West. Even if the answer was "yes," the opposing strategic objectives on both sides make a lasting ceasefire, let alone any sustainable resolution to the conflict, very unlikely, at least as long as Vladimir Putin and Volodymyr Zelensky remain in power.

Perhaps the most important factor to determine the outcome of the war will be the extent of continued international support for Ukraine. This entails not only military, macro-financial and humanitarian assistance, but also political backing to seek an agreement that would be acceptable to Ukraine. Any attempts by the West to negotiate a deal with Moscow over Kyiv's head or to push Zelensky into a compromise lacking domestic Ukrainian backing would be corrosive to the perceived credibility of the Western alliance.

Incumbents fight for survival

Electoral politics will require monitoring, as ruling parties fight for re-election in Estonia, Greece, Turkey, Poland and Spain. In the Baltic country, the Reform Party is expected to prevail in the poll in March, although it will face stiff competition from the right-wing Conservative People's Party of Estonia. Meanwhile, Prime Minister Kyriakos Mitsotakis from the center-right New Democracy (ND) is likely to get re-elected in Greece despite the ongoing spyware scandal. However, given the country's electoral system, two consecutive polls in May and June will likely be necessary for ND to obtain the necessary parliamentary majority.

In Turkey, incumbent Recep Tayyip Erdoğan will probably secure re-election in the June presidential poll despite a challenging economic context. At the same time, his Justice and Development Party (AKP) is unlikely to obtain a parliamentary majority in the concurrent legislative polls, but will still be able to form a coalition with the Nationalist Movement Party (MHP). In Poland, the ruling United Right bloc faces much tougher competition in the legislative election that will be held in October, with opposition parties still debating whether to form an alliance. At this stage, the opposition has a slightly better chance of obtaining a parliamentary majority and forming a government.

Another incumbent who might have a hard time getting re-elected is Spanish Prime Minister Pedro Sanchez, given the strong momentum of the opposition center-right People's Party (PP) in the polls. However, whether the PP can obtain a convincing victory in the legislative election – likely to be held in November or December – will depend on its ability to keep intra-party divisions at bay. The regional and municipal elections in May will provide a good signpost of each party's electoral strength. Finally, no legislative elections are planned in France, but President Emmanuel Macron could dissolve the National Assembly if the government cannot get its reforms passed in parliament.

"Electoral politics will require monitoring, as ruling parties fight for re-election in Estonia, Greece, Turkey, Poland and Spain."

No more anarchy in the UK?

After a year with three prime ministers, the Conservatives will try to display stability, preparing the ground for the general election expected in 2024. The immediate factor to watch is how grave the recession will turn out to be. Following Liz Truss's disastrous stint at 10 Downing Street, a prolonged downturn might make it even harder for PM Rishi Sunak and his Conservatives to win back their trademark perception of economic competence.

The budget announced late in 2022 was a first step in that direction, even if it made few tough choices, with major spending cuts envisaged only after the election. Rather, the Tories have returned to kicking the can down the road, which has long been the Conservative approach to fiscal policy, except for Truss's brief episode of recklessness.

Over recent years, short-term justifications for delaying fiscal consolidation were provided by the pandemic and Russia's war on Ukraine. However, the underlying political issue is that the Conservatives are still struggling to decide what the role of the state should be, while having since Brexit attracted new voter segments that depend on expanding rather than cutting public services.

The market turmoil of 2022 may have shielded Sunak from an immediate backlash from within his own party against tax hikes. Delaying the most difficult choices beyond the next election might only increase the burden on Sir Keir Starmer in case of a Labour win. In the meantime, the key signpost to watch is how quickly internal opposition will gain pace within the Conservative Party.

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Latin America

Tests of resilience

2023 will be challenging for Latin America. The region faces a major fall-off in growth, and inflation will take time to moderate. Growth in the two major markets – Brazil and Mexico – will be limp, though not as weak as in Chile and Colombia. That will create delivery headaches for leftist governments that promised voters so much. Peru's long-running political crisis may not abate significantly in 2023 even following Pedro Castillo's ouster in late 2022, while polarization is also likely to remain high in Bolivia.

The biggest test for institutional resilience in 2023 may center on Mexico and Central America. On the isthmus, democratic rules and norms have already been dismantled at speed by El Salvador's Nayib Bukele, while Nicaragua has become a full-blown dictatorship. Guatemala's June 2023 elections could see Yuri Rios, an authoritarian admirer, winning power. In Mexico, the extent of democratic backsliding is less pronounced, but President Andres Manuel Lopez Obrador (AMLO)'s objective of securing hegemony for his National Regeneration Movement (Morena) will see continuing political battles over the electoral system.

Meanwhile, U.S. willingness and ability to counter democratic backsliding will continue to be limited by domestic pressures to stem migration, as well as more pressing priorities beyond Latin America. At the same time, left-leaning governments will try to re-forge regional alliances that exclude the U.S., while continuing to embrace Chinese investment, trade and finance.

Brazil under Lula

The immediate challenge for the incoming administration of former president Luiz Inacio Lula da Silva, who takes office in January 2023, will be the handling of the economy. Unlike his two previous mandates, when he inherited a balanced fiscal situation and benefitted from a commodity super cycle that favored Brazilian exports to China, Lula will face a challenging economic environment, characterized by a virtually inexistent fiscal space to promote growth or attend to significant social demands. Interest rates will likely remain in double digits in Lula's first year in power.

Parties aligned with the outgoing Jair Bolsonaro won congressional majorities. However, all these parties belong to the "Big Center," which is notorious for negotiating itself into an alliance with the government in power. It is therefore likely that Lula manages to put together a strong alliance in congress that will comprise parties from the Left and the Big-Center, in addition to "democratic center" parties that formed a coalition to support his election. There will be compromises on sensitive issues such as the "secret budget," which allows parliamentarians access to public funds in the absence of any transparency obligation on their allocation.

Environmental policy under Lula will provide the greatest contrast to the Bolsonaro administration. Lula should follow through on his promises and tackle deforestation and strengthen environmental institutions that were virtually dismantled under the previous government. Initial agribusiness opposition to Lula should evolve into a collaborative partnership with a view to ensuring restriction-free trade with Brazil's main trading partners.

On foreign policy, Brazil is expected to "return" to the concert of nations under Lula, as exemplified by his participation in COP27. It is less likely this time that Lula will favor political alliances with so-called Bolivarian countries – i.e., countries with left-wing populist governments such as Venezuela or Nicaragua. Lula will seek out major OECD countries early in his administration, including the U.S., but should also pursue a normalization of bilateral relations with China following a difficult period under Bolsonaro.

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The electoral horizon

The region's most important election will take place in Argentina in October. Economic difficulties, led by stubbornly high inflation, make it highly likely that the governing Peronists will lose the presidency. It is difficult to see what formula Cristina Fernandez (CFK) can conjure to retain the levers of power. Even so, the main opposition coalition is beset by internal divisions and must manage what could be a bruising primary to settle on a candidate, or risk fortifying the anti-establishment far-right. A defeat for Peronism would debunk the notion that Latin America is in the grip of a "pink tide" and instead reinforce the sense that the region is experiencing a reaction against incumbency more than a leftward shift.

Other votes across the region may not garner so much attention but will be important markers of political currents. Mexico holds a pair of state elections – one in the economic powerhouse state of Mexico – that represent the curtain-raiser for the 2024 presidential elections. 2023 will also see the competition to succeed AMLO intensify. In Venezuela, a primary process to select an opposition presidential candidate will also take place over 2023. Meanwhile, Chile could see a vote for a fresh constituent assembly and/or a referendum to ratify or reject a(nother) draft constitution, meaning constitutional uncertainty will drag on into a fifth year. Finally, regional and local elections in Ecuador and Colombia will provide tests for governments that are respectively struggling and new.

> **"A defeat for Peronism would debunk the notion that Latin America is in the grip of a 'pink tide' and instead reinforce the sense that the region is experiencing a reaction against incumbency more than a leftward shift."**

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In Focus: Global Tech

In recent years, the U.S. has pursued policy measures aimed at containing China's technological ascendancy. The export controls announced in October signal an unprecedented escalation by marking the first time that blanket restrictions were applied on entire product categories rather than targeting specific Chinese buyers, entities or government institutions. Vis-à-vis tiered foreign direct production rules that restrict the sale of U.S.-origin technology components, the controls not only curb the sales of U.S.-based semiconductors and semi-equipment firms, but they also position the U.S. to dictate who non-U.S. companies sell to, regardless of where production takes place.

The immediate business implication is the anticipated lost revenue for firms with significant exposure to Chinese customers and chipmakers. Approximately 15% of revenues of the major U.S.-based equipment suppliers are estimated to be at risk as a result of these controls. Major non-U.S. suppliers of allied countries are also expected to take a hit, such as Japan-based Tokyo Electron, which derives 25% of its sales from China, while Netherlands-based ASML expects less material losses, but an indirect impact nonetheless. In 2023, companies could develop workarounds to continue sales to China, whether by selling through foreign subsidiaries or designing out U.S.-origin components from their technologies, which could accelerate the technological and economic decoupling of China and the West.

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More controls? More fragmentation?

If firms choose the "design-out" option, the sector may see more firms consider dual-track manufacturing or multiple tech stacks. As governments increase regulations at the manufacturing and input sales level, this may increase the likelihood of technology firms building multiple configurations of their technologies to maintain consumer bases while adhering to government policies. Technology fragmentation has already been noted with the "splinternet," which is a product of varying government regulations on digital content, social media and access to technology. These fragmentations may now also be seen at the product manufacturing level.

While this is not something that will happen overnight, we are seeing firms such as Nvidia find ways to sell their products to Chinese markets while following U.S. policies. Dual-track manufacturing of technologies can have serious implications for the future of global technology. For one, dual-track manufacturing is a costly and labor-intensive option and consumers may find product costs increasing to reflect this. Second, this fragmentation can increase the chances of incompatibilities and less secure products. It can also create challenges for product useability. Firms opting for multiple tech stacks will need to ensure that differing product specifications have a limited impact on end users. Third, having multiple tech stacks can limit the efficacy of global standards for technology, cross-border data usage and user consent. Finally, fragmented technologies can limit innovation, openness and growth in the technology sector. In the coming year, companies will have to spend more time finding ways to address regulatory hurdles rather than focusing on encouraging innovation.

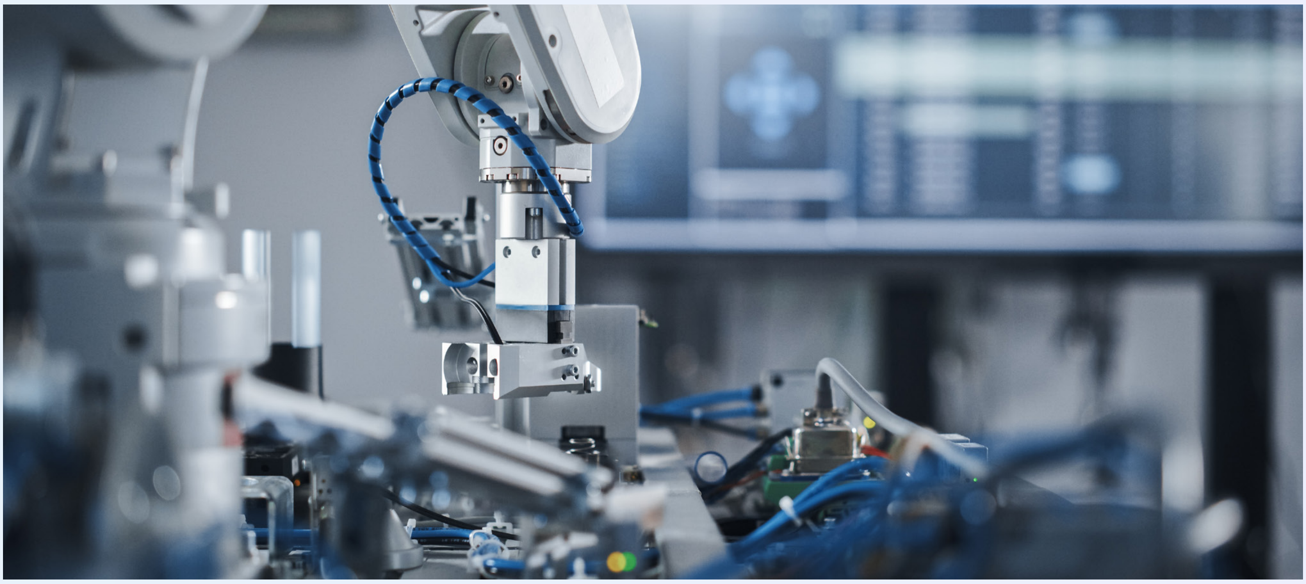
Will the U.S. go it alone?

Washington had hoped for these export controls to be issued in conjunction with European and Asian allies to send a unified message about global technology decision-making. However, U.S. allies, namely the EU, have not yet decided on a stance since the bloc is strongly divided regarding how to deal with Beijing. For instance, countries such as Germany and Hungary want to take a less confrontational approach, given existing trade relations and a cloudy economic outlook. U.S. officials are seeking a trilateral deal with the Netherlands and Japan to enhance broader efforts to curtail the Chinese chip industry's ability to grow. Decisions about these issues may be expected in 2023. At the same time, the big powers will remain committed to their strategy of boosting their domestic chip production capabilities, with the EU expected to approve its Chips Act in the first half of next year.

Major signposts for 2023

On the political side, it will be important to watch how partners proceed on the topic. Japan and the Netherlands have joined the U.S. in principle, but their level of partnership is yet to be detailed. While the EU-U.S. Trade and Technology Council (TTC) may not address this before year-end, it will become a topic of discussion for the TTC export controls working group in 2023. In Japan, even with a tilt towards Washington, officials and business stakeholders may try to rein in any desire for a complete decoupling from Beijing.

On the technology side, an issue to watch is the announcements of new production facilities in other countries. Firms will have to monitor new policies and regulations that could further complicate their supply chains, product designs and sales strategies. Increased due diligence, as well as the potential for decreased sales, will continue to be a concern for firms who are already grappling with reduced revenues. 2023 may bring forth fragmentation of technology if public and private sector decision-makers are unable to balance geopolitical and technological priorities.



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Middle East & North Africa

Saudi Arabia's transformation continues

Saudi Arabia is full of swagger with the run-up in energy prices. Commercial interest in the Kingdom is increasing, and even some of the country's more quixotic efforts are garnering serious attention. The Biden visit to Jeddah in July and the decision to extend sovereign immunity to Crown Prince Mohammed bin Salman in November reinforced the conclusion that the Kingdom is too important to ignore and too central to the global economy to isolate.

The opportunities in Saudi Arabia arise from the leadership's appetite for disruption, driven by an awareness that the energy transition is looming. Saudi Arabia has about a two-decade window to transform its economy, and in particular its private sector workforce, from a low-wage, high-productivity, expatriate-heavy population into one reliant on the productivity of Saudis. Maintaining discipline in the face of windfall profits hasn't worked before, but Saudi Arabia has new management.

In the near term, the risks are far more on the side of ill-considered adventures than public backlash. Still, Saudi Arabia's transformation process is built around one man, which creates key person risk.

"Commercial interest in the Kingdom is increasing, and even some of the country's more quixotic efforts are garnering serious attention."

Toughened economic straits for Egypt

Egypt has its own set of risks. The Ukraine war wreaked havoc on government budgets and the government had to hit pause on debt-fueled development and disruption that sometimes seemed every bit as ambitious as Saudi Arabia's. The IMF forced Egypt into a major devaluation of the pound in October that rescued the country's foreign reserves, but will increase the cost of servicing dollar-denominated debt and fuel inflation.

External support will come on harder terms now; Gulf countries that had previously made deposits with the Egyptian central bank are now insisting on equity in Egyptian businesses. President Sisi pleaded for leniency from international lenders, arguing that the population is a tinderbox, but he got little sympathy. Lenders have tired of supporting the government in general, and the military in particular, as it embarked on unsustainable economic projects.

The toughened economic straits will challenge Sisi politically, both among the elites and the public, and they will tarnish the image he has put forth as Egypt's savior.

Protests in Iran – and beyond?

A rising protest movement in Iran is not yet a threat to the government. Still, economic conditions are deteriorating, and the government is once again pursuing nuclear brinkmanship to force Western powers to engage with it.

Ayatollah Khamenei, who has been in office for 33 years, is 83 and reportedly ailing. We are beginning to see signs that battle lines are being drawn for succession. There are a wide variety of possible outcomes, among them the succession of his son and the rising authority of the revolutionary guard at the expense of the clerical establishment.

Even if Khamenei remains in office, rising internal pressure increases the likelihood of Iran doing something disruptive in a bid to increase its leverage over outside powers or distract the domestic population. Iran's skillful exploitation of deniable activities gives it potential reach throughout the Middle East.

Beyond Iran, the brake on instability in the wider MENA region remains the Arab Spring, which populations widely regard to have produced no lasting benefit. Yet, the grievances of hundreds of millions of Arabs are likely to increase this year. The key question to watch is whether it will matter.

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