

# Conflict Update # 122

July 17<sup>th</sup>, 2022

## Conflict Assessment

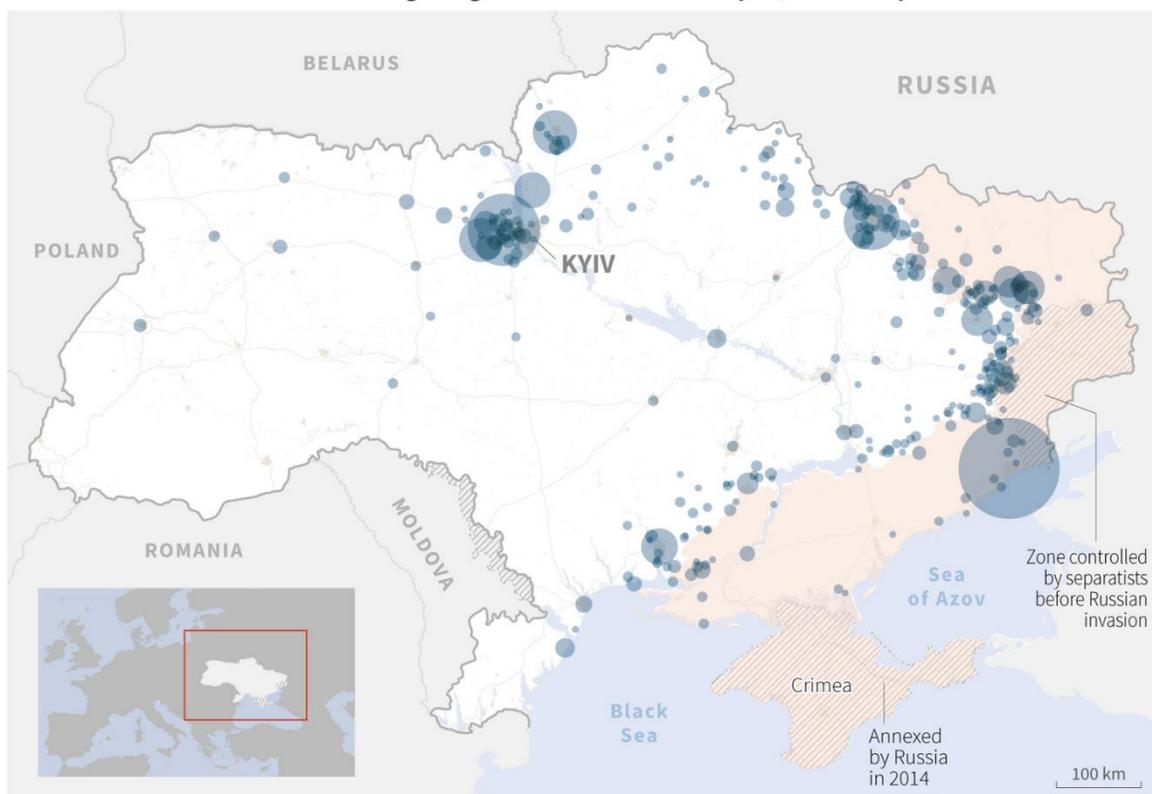
### Key assessments

**38,000 Dead Troops And 1,672 Destroyed Tanks In Ukraine** - The Ukrainian Ministry of Defense claimed that as of Friday last week, Ukrainian forces have killed approximately 38,000 Russian troops (and wounded approximately thrice that number), destroyed 220 fighter, attack, and transport jets, 188 attack and transport helicopters, 1,672 tanks, 842 artillery pieces, 3,866 armored personnel carriers, 247 Multiple Launch Rocket Systems (MLRS), 15 boats and cutters, 2,731 vehicles and fuel tanks, 109 anti-aircraft batteries, 681 tactical unmanned aerial systems, 67 special equipment platforms, such as bridging vehicles, and four mobile Iskander ballistic missile systems, and 155 cruise missiles shot down by the Ukrainian air defenses.

Add to this is the damage and losses to Russian forces of ammunition in destroyed ammunition dumps, particularly during the period since arrival of the HIMARS weapons systems into Ukraine.

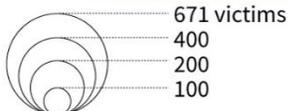
### Civilian casualties in Ukraine

Number of civilians killed since the beginning of the conflict on February 24, recorded by the NGO Aclad\*



Position of military forces  
As of July 5, 1900 GMT

Orange shaded area: Russian control or operations



\*3,409 deaths reported as of July 1.  
Non-exhaustive numbers

Source: Aclad, data as of July 1, Institute for the Study of War and AIE's Critical Threats Project

Map data: OSM **AFP**

**30+ Russian Military Centers Destroyed** - Bolstered by US medium-range rocket systems, Ukraine's forces have destroyed more than 30 military logistics centers of the invading Russians in recent weeks, says the Ukrainian Defense Ministry.

Oleksandr Motuzianyk, emphasized the role of the American M142 High Mobility Artillery Rocket System (HIMARS) rocket systems. Eight were delivered by the Biden Administration last month, and Washington announced last week that another four are being dispatched.

Each of the advanced wheel-mounted systems can carry six rockets with a range of 70 to 80 km (43 to 50 miles).

Ukrainian forces have used the systems to destroy a series of Russian ammunition depots across occupied Ukraine. In the most visible attack, the Ukrainians detonated large ammunition stockpile in the town of Nova Kakhovka in the Kherson region in southern Ukraine on Tuesday. The military said artillery and armored vehicles were also destroyed.

While Russian officials have not admitted any losses, the deployment of the HIMARS has caused consternation among Russian officials, with Vladimir Putin warning of retaliation with severe consequences. Russian military bloggers have criticized authorities for their ineffective defense against the systems, raising the prospect of censorship by the Kremlin.

On Friday, Ukraine Defense Minister Oleksii Reznikov celebrated that the HIMARS have been accompanied by the arrival of US M270 multiple rocket launch systems, each carrying 12 rockets.

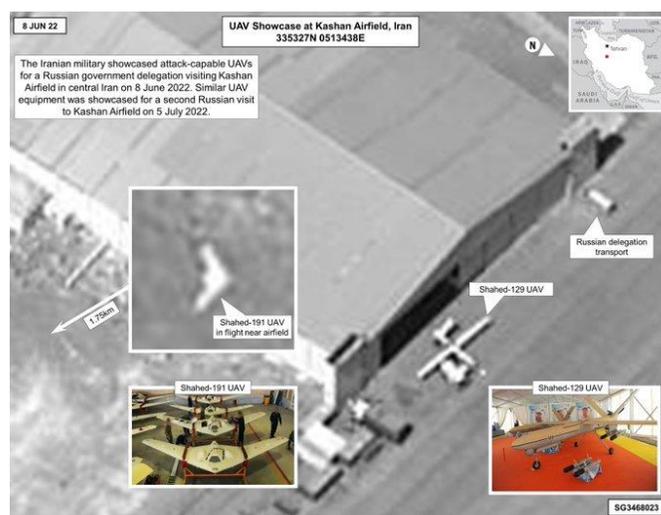
Norway approved the transfer of three M270s after they were upgraded by the British military. The (British) upgraded versions are capable of longer range fire than the HIMARS systems.

**Russians visit drone manufacturer in Iran** - A Russian delegation has visited an airfield in central Iran at least twice in the last month to examine weapons-capable drones, says US National Security Advisor Jake Sullivan.

Sullivan supported the assertion with satellite images.

US officials noted that Tehran has been displaying the Shahed-191 and Shahed-129 drones, capable of carrying precision-guided missiles.

Sullivan summarized, "We have information that the Iranian government is preparing to provide Russia with several hundred UAVs [unmanned aerial vehicles], including weapons-capable UAVs.



The lack of drones has compounded Russia's loss of troops, armored vehicles, and weapons amid its initial failures in Vladimir Putin's invasion and then its offensive in eastern Ukraine.

**"No Russian Missiles or Artillery Can Break Our Unity"** - Ukraine President Zelenskyy has responded to Russia's invasion, and specifically to its deadly attacks on civilians, with the assurance, "No Russian missiles or artillery can break our unity."

In the past week, Russian missile strikes have killed up to 150 civilians, including 48 in Chasiv Yar in eastern Ukraine last Sunday and 24 in Vinnytsia in the center of the country on Thursday. On Saturday, at least three people were killed and 15 wounded in Dnipro when two of six Russian missiles evaded anti-air defenses. In his nightly video address, he said:

*“Ukraine has withstood Russia’s brutal blows. We have already managed to liberate part of the territory that was occupied after February 24. We will gradually liberate other regions of our state that are currently under the occupation. During such a war, we were able to obtain the status of European Union candidate. We have maintained the stability of public institutions....All logistical processes in the state – military and economic – were repurposed.*

*And most importantly, we maintain internal unity, having overcome conflicts and contradictions that had hindered us in the past.”*

**Russian forces step up attacks in Donbas** - The situation is 'very tense' in the Ukrainian city of Kramatorsk, but a Ukrainian soldier there says that morale among Kyiv's forces is higher now since the fall of the city of Lysychansk two weeks ago, due to the successful use of Western-supplied weapons on the battlefield. FRANCE 24's Gulliver Cragg reports.

Russia is preparing for the next stage of its offensive in Ukraine, a Ukrainian military official said, after Moscow said its forces would step up military operations in "all operational areas".

"It is not only missile strikes from the air and sea," Vadym Skibitskyi, a spokesman for Ukrainian military intelligence, said on Saturday. "We can see shelling along the entire line of contact, along the entire front line. There is an active use of tactical aviation and attack helicopters."

## Impacts

**Russia to be declared a “Terrorist State?”** - Moscow persists in launching ballistic and cruise missiles indiscriminately against Ukrainian cities, and voices arguing that Russia be declared a terrorist state are increasing.

**Anger is ‘white-hot’ against Russia’s ‘illegal’ war** - Treasurer Jim Chalmers says there is “white-hot” anger against Russia from the international community due to the human cost of the “illegal and immoral” invasion of Ukraine.

Mr Chalmers said Russia’s invasion of Ukraine also has a huge economic cost.

“It turbo-charges so many of the difficulties that we’re seeing the global economy right now,” he told Sky News Australia.

“So, there’s a lot of anger in the room right now.”

**Sri Lanka’s protests are just the beginning of global instability** - Sri Lanka’s economy is in free fall. The country doesn’t have enough money to buy essentials: food, medicine, and especially fuel. Buses can’t run, schools can’t open. The economic crisis was years in the making because of mismanagement, but terror attacks in 2019, and later the Covid-19 pandemic, which shriveled Sri Lanka’s tourist economy, pushed it to the brink.

But the domestic political turmoil unfolding in Sri Lanka also links back to the instability across the globe, including the war in Ukraine and all of its consequences.

It may seem strange to link street protests against the Sri Lankan government to a war in Europe, but food and oil markets are global. A shock in one place ripples everywhere. The Ukraine war compounded supply chain pressure in the wake of Covid-19, and Moscow’s war in Ukraine and Western sanctions against Russia have squeezed agricultural exports — critical supplies like grain and sunflower oil — from the entire Black Sea region. These products can be replaced on the global market, but at a cost. Fuel prices are also up, and if it costs more to buy diesel for a tractor or to transport cargo, food becomes more expensive still. Food becomes all that much harder to afford for poor countries, and for poor people in rich countries.

The United States and Europe are seeing these price shocks. So are people in Ghana and Mozambique and Mexico and Ecuador and Uzbekistan and Afghanistan. Food, fuel, and other essentials are getting more expensive, everywhere. Many

of these governments want to intervene, but their economies were already pummeled by the Covid-19 pandemic, and so they don't have the funds to respond to these crises.

That means standards of living will fall in many countries, and that more people will slip into poverty. The United Nation's World Food Program has warned that the number of food-insecure people has risen to 345 million; nearly 50 million people in more than 45 countries are at risk of falling into famine conditions.

But global instability that causes prices to rise also creates more instability. Food prices, for example, are rarely the only reason that a government falls, but they can help crystallize simmering discontent in a country. "If you can point to rising food prices, it is a sign that something is failing in the implicit contract between the government and the governed," said Cullen Hendrix, a nonresident senior fellow at the Peterson Institute for International Economics and professor at the Josef Korbel School of International Studies at the University of Denver.

"We need to decompose into thinking about food prices and thinking about fuel prices. Up until about 2000, the two of those weren't really correlated. You had periods where you had very high food prices and very low oil prices, or very high oil prices coinciding with low food prices.

"The 2000s are when those two things start to trend much more together. In some ways, the current crisis looks the most like the 2007-2008 food price crisis, because we have simultaneous crises in both food markets and oil markets in terms of elevated prices as a response to, in this case, instability caused by the Russian invasion of Ukraine. In 2007 and 2008, it had more to do with climatic shocks, and then the ways that many producer countries — countries that normally export food — decided to institute export bans."

"Generally speaking, there is a positive relationship between higher prices for food in international markets and protest activity. This relationship is particularly evident in democratic and semi-democratic countries. Protest dynamics tend to be less responsive to global food prices in more authoritarian countries."

"With respect to oil prices as separate from food prices, the research on this topic is a bit more mixed. It's certainly the case that higher fuel prices can erode real incomes. They can eat into purchasing power, and they can generate significant grievances with incumbent regimes, who are being asked to do something about these higher prices. But it turns out that these higher oil prices are also a source of revenue that many governments that export oil can capture, and they can use that to reinvest back into price supports and mechanisms of ensuring social stability."

"At any sufficiently large protest, people are going to be there for a variety of reasons. Food and fuel prices may be significant for some participants, but they may not be particularly significant for others."

"It's not typically the most food-insecure people that wind up participating in these protests. It's not the truly hungry. It's that if you can point to rising food prices, it is a sign that something is failing in the implicit contract between the government and the governed, in terms of being able to secure people's ability to have plentiful and appropriate food at a bearable price. If you think about that as being the bedrock of the social contract in these regimes going all the way back to Roman times — that's where the concept of "bread and circuses" comes in — then, yes, they're kind of a canary in the coal mine for the broader inability of the government to address the grievances and the needs of the populace."

"The issue in a place like Sri Lanka — and if you look through the list of other places that are experiencing these kinds of inflation protests, like Albania, Argentina, Panama, Kenya, Ghana — these are not places with a ton of what economists would call fiscal space. They do not have the ability to offset these price increases with ramped-up government spending and targeted transfers and subsidies to offset the pain. These are cash-strapped governments; they went into the crisis cash-strapped, many of them because of the ongoing effects of the Covid pandemic."

"I hate to bang on Russia, but I don't hate to bang on Russia, as this has been their fault before. If you go back to 2010-2011 and the Arab uprisings, the food price spike occurred because Russia decided unilaterally to impose an export ban

on wheat, barley, a bunch of other kinds of grains, in response to heat waves and wildfires that were projected to decimate their harvest. In order to maintain domestic food supplies and lower prices, they decided to not export.”

“The problem was that many of the countries that were counting on those exports — the same way as it is now, the countries that are counting on Black Sea exports, both from Russia and Ukraine — were the countries in the Middle East and North Africa, which are deeply food import-dependent. Then, as now, they’re basically thrust back into international markets at much higher prices to try and satisfy their need for food imports.”

“There were obviously elements to the Arab uprisings that had nothing to do with food prices, but it is important to understand the contributing factor that food prices can play.”

“I’m hesitant to say that there is a tipping point where I can say, “Once food gets above X price, then it’s on.” I don’t think there’s sufficient evidence for that.”

“I will say that the prices we’re currently seeing are, if not historic, near historic. The last time we saw food prices this high in international markets was in 1974. Back then, global food trade was a much smaller share of actual food consumption. Higher global prices mattered less for people’s ability the world over to feed their families.”

“Keep an eye on West Africa, particularly Ghana and Nigeria, there is potential for maybe Pakistan, the non-oil-rich Middle East and North African countries, and maybe Central America. I think that’s a significant issue, because it’s co-occurring with droughts. But it’s also the case that these countries, because of rapid rates of urbanization, are becoming increasingly dependent on global markets, and these are countries with fragile governance systems to begin with.”

### A broken global economy is jacking up prices around the world. Experts

**say we’ve seen this before: World War I** - The end of an era is sometimes obvious, but not always.

Over 100 years ago, as the world took up arms in what was then called “the Great War,” it was clear that something had changed. Beyond the cataclysm of the birth of modern warfare, major economies had their first brush with hyperinflation and the economic chaos that ensued.

Now, some of the brightest minds on Wall Street say 2022 could be a similar kind of turning point.

“The world is at a great risk of dividing into economic spheres,” Marcus Brauchli, a managing partner at North Base Media, told the audience at this week’s Fortune Brainstorm Tech conference in Aspen, Colo.

The Russia-Ukraine war, U.S. tensions with China, and the ongoing chaos of Brexit are all signs that an era of deglobalization has arrived, bringing long-term inflation along with it.

### Annual inflation rates around the world

Latest 12-month percentage change in inflation

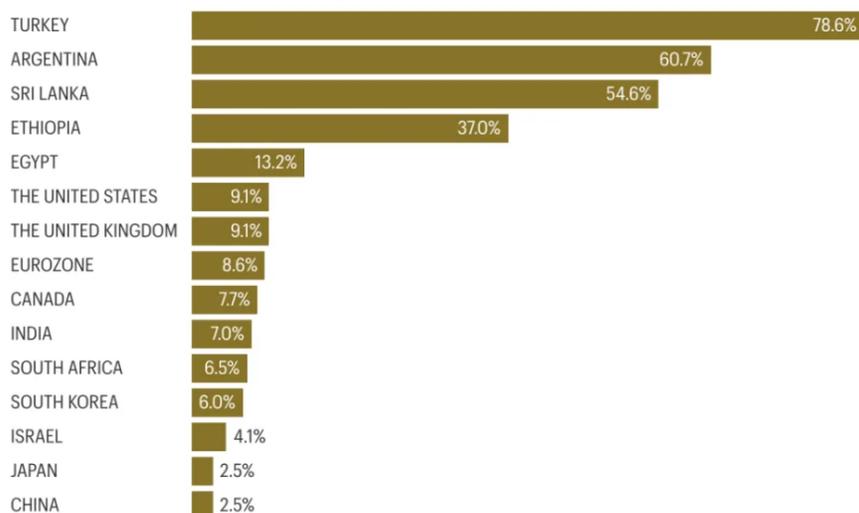


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FORTUNE

Larry Fink thinks so, and that's significant. Fink is CEO of the world's largest asset manager, BlackRock, and has been dubbed one of Wall Street's "new bunch of emperors" by one of the world's greatest investors, Charlie Munger, the vice chairman of Berkshire Hathaway.

In his closely watched annual shareholder letter in March, Fink wrote that the Russian invasion of Ukraine has "put an end to the globalization we have experienced over the last three decades."

He argued that companies and governments will be looking to reduce their dependencies on international trade in the coming years, leading many to onshore their operations.

"This decoupling will inevitably create challenges for companies, including higher costs and margin pressures," he said, adding that there will be an era of increasing inflationary pressures worldwide as global supply chains are remade.

Fink's argument helps to explain the confusing and often conflicting economic data that keeps coming out.

### **How globalization enabled low inflation for decades**

Throughout modern history, globalization has been a deflationary force. Increased trade and migration between nations have acted to reduce labor and materials costs for decades now, leading many critical consumer prices to fall.

Brendan McKenna, an international economist at Wells Fargo, told Fortune that globalization has also increased competition among businesses consistently over the past century, which has helped to reduce inflation.

"One of the benefits of globalization is that it creates competition amongst businesses," he said. "As corporates compete with each other, they typically set the lowest possible price points which is a deflationary effect. De-globalization can have the opposite effect."

The "first true wave of globalization" took place from the latter part of the 19th century through the start of World War I in 1914, Carola Frydman, an economist, and professor of finance at Northwestern's Kellogg School of Management, told Fortune.

This period, also known as the "Belle Epoque," or "Beautiful Age," was characterized by increasingly free trade, reduced restrictions on migration, and the free flow of capital, which helped to enable a rapid decrease in global transportation and communication costs.

"During that period of high globalization, what we saw primarily was a narrowing of price and wage differences across areas, but also a period of relatively low inflation," Frydman said.

When World War I hit in 1914, that all ended, and inflationary pressures rose, with some countries even suffering from hyperinflation, Frydman noted. It wasn't until the 1970s, when an oil shock caused inflation to rise to unsustainable levels, that another era of globalization took hold.

### **Three scenarios for deglobalization and inflation**

But how much will inflation rise due to deglobalization?

In an April 27 research note, Goldman Sachs' Chief Economist Jan Hatzius broke down three potential deglobalization scenarios, and how they might impact inflation.

1. In the first scenario, which he called "**blanket deglobalization**," Hatzius said that a 25% decline in trade with lower-wage countries around the world, including China, could result in a 2% jump in the core personal consumption expenditures (PCE) index.

PCE is a key inflation gauge used by the Federal Reserve. In May, it rose at a 6.6% annual rate, with core PCE, which excludes volatile food and energy costs, rising 4.7%, Bureau of Labor Statistics data shows.

LVW Advisors' Van Dusen said that Goldman's first scenario seems unlikely and extreme.

"We're probably going to settle out at higher costs, and that will hit profit margins, but it's not as draconian as what their first scenario is painting," she said.

2. Hatzius' second scenario assumes a **50% decline in trade with China**, while trade with other lower-wage countries continues at its current pace. If this happens, Goldman believes core PCE in the U.S. could be lifted by 1.9%.
3. Finally, Hatzius said a third scenario could take place, where a **50% decline in trade with China is made up for by higher imports from other lower-wage countries**. This case could add 0.6% to core PCE.

Van Dusen said that she sees this scenario as the most likely, with core PCE jumping by between 0.5% and 1%, due to the effects of de-globalization. She added that investors should look at what individual companies are doing with their supply chains to get a better idea of the future path of inflation.

The more firms that are forced to remake their supply chains around regional economies, the more inflationary pressures the global economy and the U.S. are likely to experience. To Van Dusen's point, some companies have already decided to move some of their operations in order to cope with the ongoing deglobalization trend.

The Goldman team argued in their research report that reductions in trade with global partners and the fracturing of global supply chains, as evidenced by Lego's move, will likely continue to cause a period of "slowbalization," in which the flow of goods, capital, and people across borders slows.

Hatzius and his team wrote that investors should "expect somewhat higher inflation and thus higher nominal interest rates" as a result.

Comment – two features count against the factors mentioned above,

- (i) publicly-traded corporations are focused on returns for shareholders, any large increase in cost in order to on-shore or transfer sourcing will be met with huge resistance if not outright dismissal of CEOs should they advocate lower returns due to a "patriotic" desire to reduce offshored supply chain risk and
- (ii) China enjoys modern and vastly superior supply and demand chains compared to any other country. Vietnam, often touted as a viable substitute to Chinese manufacturing can only sustain, at most, a 2% transfer of Chinese manufacturer output. These countries do not have anything close to adequate supply chain and internal infrastructure to cope with even a miniscule transfer of production.

This means transferring production to Mexico, the US or Canada, in order to keep the movement of goods on terra firma the entire way. And therein lie the challenges – labor, capital, timing, raw materials, protectionism, utilization rates, growing state wealth, opportunity cost, tier 1,2 and 3 chains, and globalization networking. Keep geopolitics in mind as well.

The initial reason for offshoring was primarily the cost of labor. Follow the "Walmart Effect" curve.

- (i) **Labor** - outside full automation of production, transfer of manufacturing to North and Central America will require huge inhouse and asset-heavy investment, coupled to ongoing maintenance and improvement. Look at microchip production, now centered around Taiwan. Commission of a local US manufacturing facility costs as much as building a nuclear power plant. Microchip production also suffers from Moore's Law – where rapid technological development requires upgrading and modernization every year. With a 60-year return cycle and far lower redundancy cost(s), it is obvious where investors put their money – in the power plant.

- (ii) **Capital** – look at the car manufacturing industry, where automotive production has shifted significantly elsewhere. Production in China has grown by a stunning 149%. India expanded by 72%, whilst Italy declined by 49%, and France by 42%. It can be argued that these investment flows follow the movement of vehicle demand. Nonetheless, it reflects the readiness—and ease—of capital to flow to markets with rising business opportunities, a hallmark of globalization.

Manufacturers have billions invested in existing production plants and global supply chains – they are not just going to walk away from this. Ford manufactures cars and trucks in more than 100 plants throughout the world.

- (iii) **Timing** – these transfers take long periods to realize, including governmental authorizations and zoning challenges. By the time these are overcome, pressure has reduced, shareholders have moved on or disinvested, and everything is “back to normal.”
- (iv) **Raw materials** continuity of supply. Look at medical mask manufacturing. The Chinese government owns more than 90% of raw materials in mask manufacture. Onshoring is fine for actual production but sourcing the raw materials may negate any such risk mitigation.
- (v) **Protectionism** - globalization has trounced trade protectionism and nationalization. Developing countries are especially inclined to promote local auto manufacturing of diversified car makers because of the significant gains it offers, jobs, taxes, technology transfer, component manufacturing.
- (vi) **Utilization rates** – with manufacturing in 3<sup>rd</sup>-World and developing countries, union participation rates and legislative restrictions are much lower than in 1<sup>st</sup> World countries. This means that these facilities operate for more hours per day than in the US for example, a huge factor in production economics.
- (vii) **Growing state wealth** – Globalization has led to many states growing in wealth and personal disposable income. Tesla has a huge manufacturing plant in China – because demand for electric cars is growing astronomically in that country. Smaller countries around the world are increasingly important in global manufacturing companies’ balance sheets. Off-shoring has taken them closer to their new markets.

Bo, a 31-year-old teacher who lives in interior China for example, recently bought an American model car, whereas his parents travelled by motor scooter and his grandparents travelled by bicycle or walked.

- (viii) **Opportunity cost** – An automotive manufacturer might be really good at producing tires but might decide not to pursue this opportunity because it’s a distraction from the core business of producing cars. It sources its tires and almost everything else from countries around the globe. Onshoring will dramatically and fundamentally change its entire value proposition.

While car manufacturers produce some original equipment, their real strength is in designing cars, marketing cars, ordering the parts from suppliers, and assembling the final product.

- (ix) **Tier 1, 2 and 3 Chains** – the typical auto industry supply chain is structured into “tiers.” Looking at the conventional car globalization network for tier suppliers,

**Tier 1 Suppliers** - Companies that supply parts or systems directly to OEMs (original equipment manufacturers). Some of these brands are recognizable, like Bosch or Continental. Some of them are less so. These suppliers usually work with a variety of car companies, but they’re often tightly coupled with one or two OEMs and have more of an arms-length relationship with other OEMs.

**Tier 2 Suppliers** - Many firms supply parts that wind up in cars, even though these firms themselves does not sell directly to OEMs. These firms are called Tier 2 suppliers. Tier 2 suppliers are often experts in their specific domain, but they support a lot of non-automotive customers and so they don’t have the ability or desire to produce automotive-grade parts.

**Tier 3 Suppliers** - In the automotive industry, the term Tier 3 refers to suppliers of raw, or close-to-raw, materials like metal or plastic. OEMs, Tier 1, and Tier 2 companies all need raw materials, so the Tier 3s supply all levels. Consequently, the line between a Tier 2 supplier and a Tier 3 supplier that sells into Tier 1s is blurry.

Restructuring this tier network is a major requirement and impediment for any company seeking to completely onshore. It may well do so for the final assembly element but will be bound by the globalized tier requirements.

In 2021, US car companies sourced parts for car assembly from more than 30 countries around the globe.

- (x) **Globalization** – traditional automobile-producing nations – notably the United States, Japan, and Germany – have increasingly outsourced some of the more labor-intensive segments of their supply chain to lower-income countries.

Additionally, indigenous car industries are developing and expanding in places not previously associated with automaking.

Globalization is a strong and undeniable economic force. It carries a number of unintended consequences but also benefits. For one thing, it assures auto companies that they can continue to build cars at a sustainable cost. And, in the end, the consumer wins, and look at what the global consumer is saying about not winning anymore.

Globalization has changed the world permanently, and aside from dire strategic or economic rationale, it will continue to grow, albeit along changed geopolitical lines.

- (xi) **Geopolitics** – stripping production out of 3<sup>rd</sup>-World countries or developing nations will see a huge geopolitical alignment risk. Should the US pull investments in large scale from smaller countries, expect China and Russia to step in and replace the losses to those countries. In today's politically endangered political ecosystems, this is too high a risk.

## Sanctions

**EU to discuss new sanctions against Russia tomorrow** - The European Union will discuss tightening sanctions against Russia on Monday, as Moscow is accused of using the continent's largest nuclear power plant to store weapons and launch missiles on the surrounding regions of southern Ukraine.

The situation at the captured Zaporizhzhia nuclear plant is "extremely tense", Ukraine's atomic energy agency chief Petro Kotin said, adding that the Russians had installed missile launchers and used the facility to shell the Dnipro region.

Describing "a deluge of fire", regional governor Valentyn Reznichenko on Saturday said Grad missiles had pounded residential areas.

With the conflict grinding on and increasingly spilling out into global energy and food crises, the EU's foreign ministers are considering banning gold purchases from Russia, which would align with sanctions already imposed by G7 partners.

More Russian figures could also be placed on the EU's blacklist.

"Moscow must continue to pay a high price for its aggression," European Commission President Ursula von der Leyen said after forwarding the proposed measures.

**The Rise of Multimodal Transportation Among Russia, Iran and India** - As the Ukraine war entered its fifth month, and two decades after Iran, Russia and India signed the International North-South Transport Corridor (INSTC) in 2002, Dariush Jamali, head of the Iranian-Russian Port of Solyanka in Astrakhan Oblast, announced that the first transit shipment from Russia to India had been sent through Iran by way of the INSTC. This shipment passed on a multimodal

route through Astrakhan Port, specifically the Solyanka part (Russia); Bandar Abbas and Chabahar ports (Iran); and Nhava Sheva Port (India).

In the process, the Solyanka section's role is critical, which was classified as the first among 15 ports on the Volga River and in the Republic of Dagestan in 2020. Since a decade ago, the Islamic Republic of Iran Shipping Lines has bought 53 percent of Solyanka shares in Astrakhan. Solyanka is important because the main part of Iranian sea trade is in the Caspian Sea with the Port of Astrakhan; a smaller portion of this trade is also dedicated to Makhachkala Port.

Iran's attention to Astrakhan Port is not new and, in the past decade, has not been limited to the purchase of 53 percent of Solyanka shares. Iran has a consulate general and a branch of Mir Business Bank in Astrakhan, which, along with the Moscow and Kazan branches, is crucial in facilitating banking and financial transfers between Iran and Russia.

Therefore, given the conditions of the Ukraine war, Astrakhan Port and Solyanka have become two of the most important transit links between Iran and Russia. In fact, this route should be considered in the context of the INSTC, which has three routes running from Russia to Iran, through Central Asia, the Caspian Sea and the South Caucasus. Since restrictions have been placed on passages from Russia to Europe in response to the war, Moscow's attention to all three transit routes has increased significantly.

Among Iran's several ports on the Caspian Sea, the two ports of Amirabad and Anzali are central to the rapid transfer of containers from Solyanka and Astrakhan to the southern ports of Iran, including Bandar Abbas. In the meantime, Chabahar Port, as Iran's only port in the Gulf of Oman, is critical for communication among India, Iran and Russia within the framework of the north-south corridor.

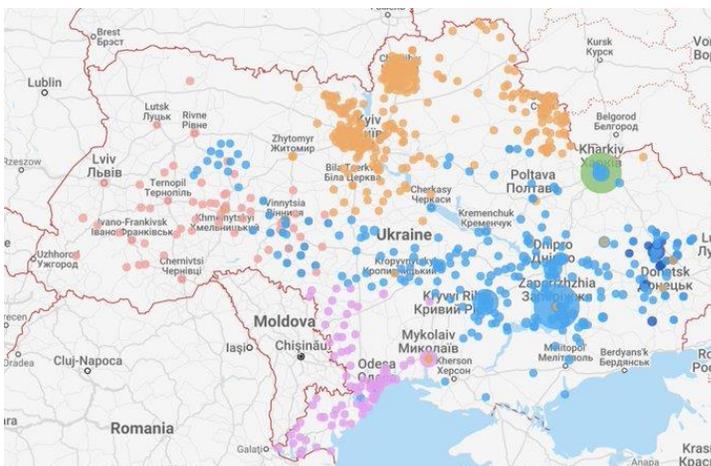
Furthermore, India's motives for participating in the INSTC are also important. India is one of the founding members of the project and signed a historic three-country deal to develop the strategic Chabahar Port as a crucial node in a "transit and transport corridor" through Afghanistan on May 24, 2016 (see EDM, September 28, 2021). Indeed, India has continued to engage with Iran on the Chabahar-Zahedan railway project since a memorandum of understanding was signed between the two countries during Prime Minister Narendra Modi's visit to Iran in 2016 (Financial Express, February 4, 2021). The completion of this project will give India the possibility to connect to Mashhad and Sarakhs in northeast Iran as well as Central Asia through Chabahar Port and to reach Anzali Port in northern Iran, south of the Caspian Sea.

Comment – some years ago, I was asked to arrange transfer of (Mennonite) grain from the Volga and Ural zones of Russia to Iran by (i) rail to the Caspian Sea and (ii) from there by ship to Iran. We elected not to entertain the request.

## Humanitarian

**Celebrity chef and humanitarian Jose Andres says 2 million food kits have been delivered to Ukrainians** Spanish celebrity chef and restaurateur Jose Andres said in a tweet that more than 2 million food kits have been delivered to those affected by the Kremlin's war in Ukraine.

"Thanks to your help the @WCKitchen team in Ukraine has delivered over 2,000,000 food kits, with ingredients for 40,000,000+ meals," wrote Andres, referencing the World Central Kitchen, his humanitarian organization dedicated to feeding vulnerable communities.



“This is in addition to tens of millions of hot meals we have delivered,” he added. The two-star Michelin chef brought the World Central Kitchen to Ukraine in order to address the mounting food crisis triggered by Russia’s war.

## Putin

**Putin ‘destroying everything he sees’ in the Donbas** - Eastern Ukraine continues to see intense assaults from Russian forces, according to the Ukrainian military, but the British Defense Ministry has questioned whether Russia has made any significant advances in the last 72 hours.

Russian forces have attacked the west-central Ukrainian city of Vinnytsia, with at least 23 dead and 110 wounded, according to latest report from the emergency services on the scene.

**Putin could be 'dragged from power' by 2024: Ex-U.S. official** - The 69-year-old politician – who first served as the Russian president from 2000 until 2008 and has been continually re-elected since 2012 – launched a military invasion on the neighboring country of Ukraine back in February 2022 and is said to be aware that there is “a lot of dissatisfaction” in Russia and is “fearful” of the 2024 election in case there is a repetition of the protests that took place in the past.

U.S. National Security Council’s former senior director Fiona Hill said: “He’s fearful of a repetition of what happened when he last returned to the presidency in 2011 and 2012, where we had protests in Moscow, St. Petersburg, and other major (Russian) cities. Putin knows that there is a lot of dissatisfaction hidden beneath the surface. People seem to be supportive of this special military operation as long as the children of the elite are not being sent off as cannon fodder to the front lines.”

The analyst went on to explain that when it comes to “socioeconomic issues,” Russia can be “ripe,” but Putin wants to move past the conflict because the “clock is ticking.”

She told Foreign Policy: “Russia is often ripe for protests, particularly on socioeconomic issues. Putin’s going to worry about that as we get towards 2024 for another reason: There are people around Putin who believe he’s not justified in having this next set of two terms. He was supposed to end his term in 2024. He extended his ability to run again for another 12 years until 2036, which will put him into his 80s. But the more weakened he is (and) the less legitimate he appears, the less it appears that he’s popular and the more incentive there is for others to try to maneuver around him to push on succession. Putin wants to get this conflict over with. He wants to seem legitimate. He wants us to be the ones who feel that we don’t have time — when he also has a clock ticking.”

**Russia Is Triggering A Domino Effect Of Worldwide Conflict** - Putin's attack on Ukraine has exacerbated tensions not only in its neighborhood, but around the planet, making the world's hotspots even hotter.

Then, in January, the five permanent members of the UN Security Council — China, France, Great Britain, Russia and the United States — that together possess 12,270 of a global arsenal of 12,705 nuclear warheads reiterated their opposition to the proliferation of nuclear weapons and agreed there must never be a nuclear war.

Russia's attack changed the world and turned the relative calm of the start of the year into a period of sustained emergency. Suddenly, the likes of U.S. President Joe Biden or the Pope were talking of a possible World War III.

First, the "new" war launched by Moscow allowed the world to forget about an older one: the war on terrorism. Days before the Russian attack, on Feb. 8, 2022, the Watson Institute for International and Public Affairs at Brown University in the United States published a report entitled Costs of War.

It observed that two decades of waging war on terror, which began after the 9/11 attacks, led to the violent deaths of 979,000 people (including all soldiers and civilians), and of an even larger number of people due to destroyed

infrastructure, environmental degradation and malnutrition. The research body attributed the displacement of 38 million people inside their countries or abroad in this period to the war on terror.

Secondly, before the Russian attack, an arms race was evidently underway. The Stockholm International Peace Research Institute has found a steady increase in spending on arms since 2015. Its total for the two pandemic years of 2020 and 2021 stood at a record U.S. \$4 trillion (four million dollars).

The United States, India, Great Britain and Russia alone were responsible for 62% of that spending, and the war in Ukraine has exacerbated the trend. President Biden's proposed defense budget, for example, was the highest in U.S. history: \$813 billion, to which the Senate recently added another \$45 billion.

Certain countries without nuclear arms have also seen the invasion as a valid reason for acquiring them. Iraq did not have them in 2003 and was invaded. Libya ditched its unconventional weapons programs entirely in 2004 and suffered a contentious intervention in 2011.

In 1994, Ukraine itself signed the Budapest Memorandum (with Russia, Great Britain and the United States) to return to the Russian Federation its share of the Soviet nuclear and ballistic arsenal.

Lastly, the world's hotspots, like Taiwan, Iran or the NATO frontier, are getting hotter. In May, Sino-American tensions spiked when Biden ditched the United States' strategic ambiguity over Taiwan and confirmed it would respond militarily should China invade. Talks to revive the 2015 nuclear pact with Iran are in danger of collapsing, and we have yet to see Russia's final reaction to NATO's recent enlargement.

Russian-Belarus joint military drills "Allied Resolve 2022" conducted air and ground operations in Belarus.

Still, it is worth asking another question that is hypothetical, though increasingly likely as the war in Donbas gets bogged down and Ukraine plots a counteroffensive. What would happen if Lukashenko attacked Ukraine?

The capital of Belarus, Minsk, is only 500 kilometers from Kyiv, while the border itself is less than 160 kilometers from the Ukrainian capital. On the Belarusian border, there are not only Belarusian troops but also temporary Russian air bases. Also, the Belarusian border passes very close to other major cities of Ukraine: Chernihiv, Lutsk, and Rivne.

Even if it fails to capture Kyiv or other major cities, its presence in the conflict would force some of the Ukrainian troops needed in the south and east of the country to redeploy. Belarus' firepower could also deliver heavy blows to civilians and critical infrastructure.

The Belarusian army does not have many armored vehicles: several hundred T-72 tanks of various modifications, of which only 20 are well equipped and modern. There are 30 MiG-29 fighters and 22 Su-25 attack aircraft, four Su-30SMs, and another 20 Su-27 fighters in storage and unlikely to be combat-ready at the moment.

The people and the army in Belarus are not united, as demonstrated by the rallies in 2020. There is little the Belarusians themselves can do if the army is ordered to attack.

Belarus was known for one very important element from World War II, which played a significant role in the German army's failure in the war against the USSR: widespread and well-trained underground resistance. Let's just say that the Belarusians may not be the most militant nation, but they are talented saboteurs. Since the beginning of the war, sabotage groups of Belarusians have mined the railroad tracks, preventing trains carrying ammunition from crossing to support the advancing Russian army.

# China

**Philippines' new leader Marcos Jr tears up \$5B railways deal with China after Beijing 'failed to put up the money'** - The Philippines pulled out of an infrastructure funding deal with China worth almost \$5billion after Beijing failed to deliver the cash.

New president Ferdinand Marcos Jr tore up the plans negotiated by his predecessor, Rodrigo Duterte, citing Beijing's failure 'to act on the funding requests'. Transport ministry official Cesar Chavez confirmed that the deal was 'withdrawn'.

The \$4.9billion (£4.2billion) agreement would have seen Chinese construction firms build the Subic-Clark Railway Project, the Philippine National Railways South Long-Haul Project and the Davao-Digos segment of the Mindanao Railway Project.

**China's economy shrinks amid strict COVID lockdowns** - China has registered its lowest quarterly growth since the start of the pandemic, according to data from the country's statistics bureau. The period was marked by lockdowns in Shanghai and elsewhere. China's economy shrank by 2.6% in the April-June period, according to official data released on Friday.

China's government is promising tax refunds, free rent and other aid to promote economic recovery, but most forecasters expect China to fall short of its 5.5% growth target this year. Yesterday we reported that China's growth target is now around the 3.3% mark, and in jeopardy of falling even lower.

**China property crisis enters dangerous next phase** - China's property crisis is leaping out of the frying pan and into the fire. Homebuyers in 22 cities are refusing to make mortgage payments on unfinished homes, Citigroup reports. The rare protest extends the risk of defaults from offshore developer bonds read more to banks with \$6 trillion of mortgages. The fat tail risk of President Xi Jinping's efforts to deleverage the sector is emerging, and it puts Beijing in a tight spot.

The economic miracle of the People's Republic had some key features: Ever-rising home prices, surging household debt, and a real estate sector that broadly contributes to one third of GDP. Wary of an asset price bubble, Xi drew three "red lines" last year to restrict financing and force developers to deleverage. A flurry of defaults ensued, including that of property giant China Evergrande, forcing bondholders to accept extensions or chase lawsuits. The revolt on mortgage payments underscores Beijing's failure to ensure the losses stop there.

It puts the focus on China's property buying preferences. New launches are almost always sold before they are built. When heavily indebted developers run out of cash, buyers are left with nothing but a debt obligation. Evergrande warned of this problem in a letter it wrote in 2020 to local authorities: The company pleaded to be allowed to list a subsidiary to avoid a cash crunch that it said would cause huge financial and social risks, including two million buyers who might protest over their 600,000-odd unfinished apartments.

The property sector in China is an instrumental part of the Chinese growth phenomenon and the ongoing crisis in this industry is triggering alarm bells in Beijing.

As mentioned in the Updates previously, Russia's invasion of Ukraine does not suit Chinese timing requirements. China assisting Russia in its war looks increasingly doubtful.

Comment – When I used to travel to China, traveling from my office downtown Beijing to the airport, I tried to count how many empty 50-story and higher buildings I could see, but always stopped around half-way to the airport. There were just too many. These were only those that were visible from the highway. New buildings stretched way past what I could see from my cab ride. A huge challenge even then.

## Containment

**Poland agrees deal to buy 116 used Abrams tanks from US** - Poland has reached an agreement with the United States to buy 116 used M1A2 Abrams tanks to replace equipment provided to war-torn Ukraine, the Polish defence minister said on Friday.

In a speech to newly commissioned army officers in the southwestern city of Wrocław on Friday, Błaszczak said that "Poland's neighbour Ukraine has been attacked by Russia."

He added: "Our task and your task is to deter the aggressor, so that the aggressor doesn't attack our country."

Błaszczak told his audience: "Why won't the aggressor attack? Because year by year the Polish Army increases its numbers, because year by year the Polish Army is being equipped with modern weapons, and because Polish Army soldiers are patriots."

**Biden administration under pressure to up Ukraine's rocket firepower** - The Biden administration is under pressure to stream more offensive and defensive rocket systems into Ukraine as the former Soviet country faces a critical tipping point on the battlefield with Russia.

As Ukrainian forces battle with Kremlin troops for control of the eastern Donbas region and seek to end the war this year — a goal which requires more air and missile defenses, early warning systems, ammunition and other equipment — defense officials and experts alike say a faster influx of such lethal aid can more quickly bring a close to the conflict.

The extent to whether that is realistic, however, is up for debate.

The U.S. and its European allies and partners have attempted to keep pace with Ukraine's pleas for more weapons, with the former alone giving \$7.3 billion in lethal aid to Kyiv as of this week.

HIMARS — 12 of which have now been pledged to Ukraine since last month — have given its forces a boost in its fighting, which for the last few months has centered on a battle for control of its eastern most region that has ground to a stalemate with Russia making small advances.

Typical courses to teach how to operate such systems usually take months but have been squeezed down to three weeks for the Ukrainians, a very abbreviated timeline.

"I think the administration in fact, I know that they don't want to send equipment over before the Ukrainians are ready to maintain and operate," he told The Hill.

That theory has since been partly debunked after a senior U.S. defense official told reporters last week that the Pentagon found it "impressive" how fast Ukrainians have learned how to operate and deploy the HIMARS.

Another holdup, Cancian noted, is the fear that if equipment goes over too quickly it can't be maintained.

"I think also the administration is concerned that at some point ... someone's going take a picture of a field full of junked equipment that the Ukrainians couldn't maintain anymore," he said. "I think that is what's causing the administration to pace what it provides out."

NATO Secretary-General Jens Stoltenberg also said in June that the alliance must be prepared for the war to drag on for "years," adding that if more modern weapons are given to Kyiv and soon it would up its chances of being able to push the Russians from the Donbas.

Stoltenberg's assessment of a long war has since been backed up by Russian President Vladimir Putin's move Thursday to sign a law allowing his government to introduce special economic measures to support Moscow's forces during "counter-terrorism and other operations."

**Products from Aussie drone company 'quite effective' against Russian drones** - DroneShield Chief Executive Oleg Vornik says the company's technology has been "quite effective" against Russian drones in the war in Ukraine.

"We have done initial deployment of our products under a military aid contract, and we are currently in conversations for additional shipments," he told Sky News Business Editor Ross Greenwood.

"Russian drones have a number of components that our systems are able to pick up and also ... make it effective against Russian drones.

"What we are finding is that even military-grade drones on the Russian side often used commercial off-the-shelf parts so with that we are finding that our gear is quite effective in both detection and defeat of those drones."

DroneShield provides multi-domain, multi-mission solutions. From comprehensive C-UxS solutions to maximizing the performance of currently deployed third-party sensors with AI-based sensor fusion and signal processing, providing mission essential capabilities.

## Geopolitics

**G20 closing statement says 'many' members condemn Russian actions in Ukraine** - Many nations in the Group of 20 major economies condemned Russia's invasion of Ukraine and called for it to end the war during ministerial talks in Indonesia, the host said in its closing statement early Sunday.

A two-day gathering of finance ministers and central bank governors on the resort island of Bali ended without a joint communique because of disagreements with Russia about the war.

But Western nations pressed Russia over the military assault, accusing Moscow of sending a shockwave through the global economy and its technocrats of complicity in alleged war crimes committed during the invasion.

"Many members agreed that the recovery of the global economy has slowed and is facing a major setback as a result of Russia's war against Ukraine, which was strongly condemned, and called for an end to the war," Indonesia said in the declaration.

"One member expressed the view that the sanctions are adding to existing challenges," it said, in an apparent reference to Russia, which has denied blame for the current global economic headwinds.

Russia only sent a deputy minister to the finance talks, with its finance minister participating virtually.

**North Macedonia Approves Bulgaria Dispute Deal, Clears Way For EU Talks** - After three days of debate, the parliament of North Macedonia voted to end a long-standing dispute with Bulgaria, thus unblocking its way to European Union membership talks.

With 68 votes, the 120-seat lawmaking body voted in favor of the French-brokered agreement although opposition MPs did not participate in the vote and left the room.

The deal will now lift Bulgaria's two-year veto on North Macedonia's EU membership.

**Solomons PM rules out base for Beijing** - Solomon Islands Prime Minister Manasseh Sogavare has given his firmest commitment yet that his country won't allow Chinese military bases to be built in his territory. It's helped ease tensions with other leaders, who fear any deal with the CCP would threaten Australia's national security.

**US reveals Pacific strategy to counter China's influence** - The U.S. has revealed a new strategy to prioritize Pacific nations in its foreign policy, seeking to temper concerns over climate change and development in a bid to counter China's growing influence in the vast oceanic region.

U.S. Vice President Kamala Harris announced the new commitment, including plans to open more U.S. embassies, in a speech delivered virtually to the Pacific Island Forum leaders meeting in Fiji.

Harris announced the U.S. would appoint a designated Pacific Islands Forum envoy to further increase its diplomatic footprint across the region, as well as new embassies in Kiribati and Tonga. That's in addition to the U.S. embassy in the Solomon Islands, which is already in the process of reopening.

The U.S. is joining governments including Australia and New Zealand in urgently ramping up relations with Pacific Island nations as China races to woo the strategically important region, amid perceptions that the larger neighbors neglected their partnerships in recent years. Officials were shocked by the signing of a security agreement between the Solomon Islands and China in April, a major diplomatic victory for Beijing and its first such deal in the Pacific.