

The cover features a vibrant, multi-colored background with swirling patterns in shades of blue, green, yellow, orange, and purple, resembling a satellite image of Earth's energy or a fluid flow visualization. The 'world energy' logo is positioned in the upper left, with 'world' and 'energy' in yellow and 'we.' in white. A yellow horizontal bar is located below the logo.

world energy  
**we.**

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Dubai,  
Museum  
of the Future.

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# A SMALLER WORLD, A BIGGER GAME

by Rita Lofano

THE CRISIS IN UKRAINE HAS SENT GLOBALIZATION INTO REVERSE,  
FUELING PROTECTIONISM AND FRAGMENTATION. THE WORLD IS ONCE AGAIN  
DIVIDED INTO BLOCS AROUND THE UNITED STATES AND CHINA



**R**USSIA'S INVASION OF UKRAINE has brought energy security and the food crisis — issues that not long ago seemed settled— back to the top of the global agenda. Energy prices are dropping, but the emergency is not over; energy supply is triggering intense global competition. The conflict in the heart of Europe, with its impact on supplies, has accentuated the fragilities of a development model based on global value chains, fueling protectionism and fragmentation and accelerating that reversal of globalization that dominated the latter part of the 20th century. The world is reorganizing itself into blocs, with one center of gravity in the North Atlantic and the other in China. Russia's role will depend on the outcome of the conflict. The U.S. Inflation Reduction Act, which, despite its name, centers on the fight against climate change, is putting Europe's businesses in a difficult position and threatens to spark a trade war. The European Union (EU) backs thermal engines beyond 2035, welcomes synthetic e-fuels and favors negotiations on biofuels. A forced green transition looks chaotic and divisive, while indicators suggest that fossil fuels, especially natural gas, will continue to account for the majority of energy consumption for a long time to come.

In 2021 more than half of oil supplies and some three-quarters of gas supplies coming from Russia were destined for Europe. Europe is now sourcing from Algeria, the United States, Norway, the Middle East and other African states as it invests in renewable energy and energy efficiency. Russian supplies have been diverted to China and India: a major shift that could amount to a new world order in the making. The United States — on track to becoming the world's largest LNG exporter this year— is banking on energy self-sufficiency and seeking to reduce its dependence on China for green technology (see, for instance, the Chips for America Act).

The record oil supply of 101.1 million barrels per day in 2023 will not be enough to meet demand according to the IEA, which forecasts a significant imbalance. OPEC+ announces a surprise quota cut, and prices rise again. Paradoxically, by the end of 2023, when the United Arab Emirates (UAE) hosts the UN Climate Conference, the world may be looking to Abu Dhabi for more crude oil.

In this issue, WE looks at the key countries that we must keep an eye on in the coming months for their impact on global dy-

namics. From the big stakeholders like Europe, the United States, China and India, to a small state on South America's North Atlantic coast, Guyana, the second poorest country on the continent, but the country with the fastest GDP growth in the world (+57 percent in 2022) and where in 2015 one of the largest oil fields on the planet was discovered off its coast. The small and the large. Then there is Brazil, where President Lula intends to dictate the agenda on climate and deforestation, and

Nigeria, the African giant where the population has increased by 30 percent in the last 20 years as well as Cyprus, where last February's elections were the first in a series that includes all parties to the island's conflict. In Turkey, after two decades under Recep Tayyip Erdoğan, presidential and parliamentary elections are scheduled for May 14th, and the outcome is not a foregone conclusion. Turkey, despite being an official candidate for EU accession, is close to Russia. It mediated a deal to

allow Ukrainian grain exports. At the end of the month, the Turkish leader will host President Putin to inaugurate the first nuclear reactor built by Russia in his country. Geopolitics (of energy) is changing before our eyes. Globalization and de-globalization alternate in history, building and deconstructing. We are in a smaller world where the game is always bigger.

**we**



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# THE STAR PLAYERS OF LNG

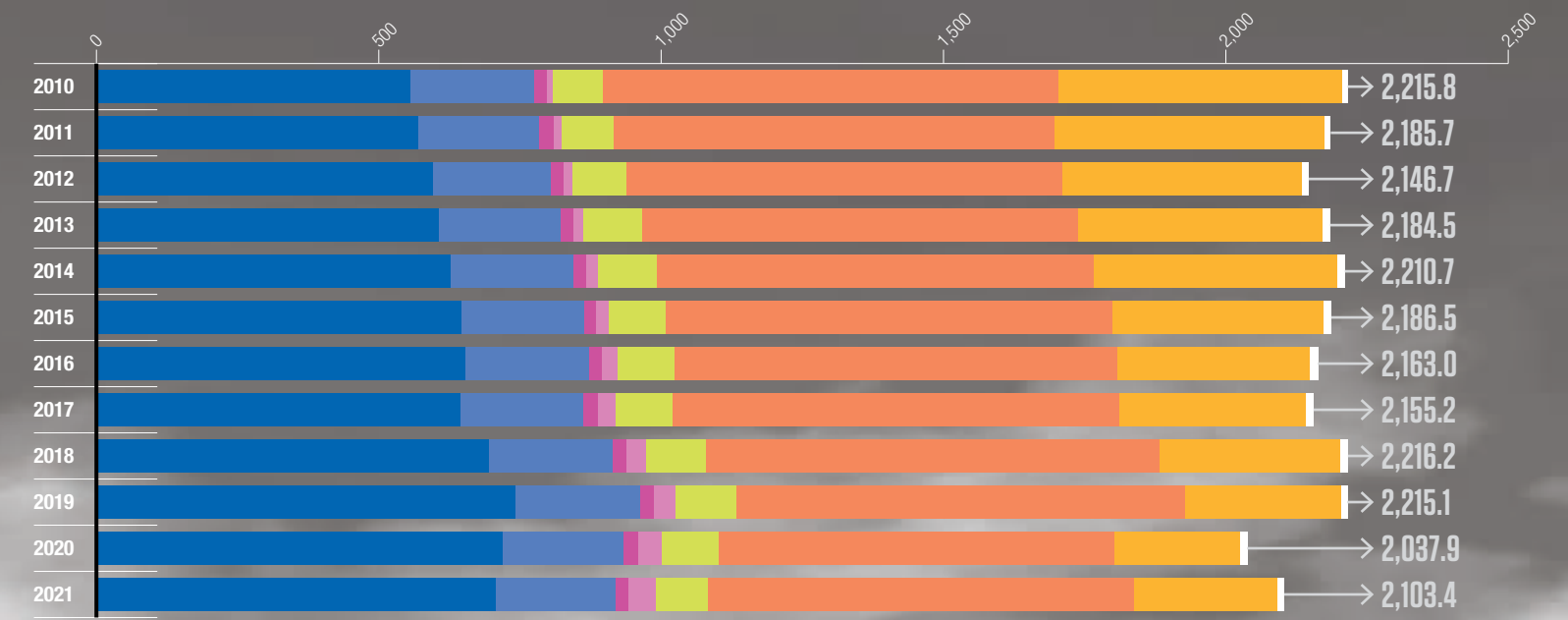


## ENERGY SUPPLY

[Mtoe]

Most of the energy used in the United States in 2021 comes from fossil fuels. Oil continues to take the lion's share, followed by gas and coal.

The growth trend of renewable energies continues, accounting for 12 percent of the total.



- OTHER
- COAL
- OIL
- BIOFUELS AND WASTE
- SOLAR & WIND
- HYDRO
- NUCLEAR
- NATURAL GAS
- TOTAL ENERGY SUPPLY



# A YEAR OF transition

by Marta Dassù



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THE TEST OF STRENGTH IN UKRAINE SETS THE STAGE FOR AMERICA'S EPOCHAL CONFRONTATION WITH CHINA, AS DEEP POLITICAL DIVISIONS ARE SOOTHED BY AN ECONOMY THAT IS GROWING FASTER THAN EXPECTED

**T**HE U.S. IN 2023 faces significant foreign policy challenges. It consistently supports Ukraine in an effort to prevent Russia from establishing its own sphere of influence on the borders of the EU. This has led to a resurgence of the old tsarist myth of Russkij Mir, with devastating and violent consequences. Although Washington has not yet defined the end-game, the U.S. remains eager to communicate clearly to Vladimir Putin and the world that the use of force on the European continent cannot succeed. At the same time, Washington aims to deter any future Chinese attack on Taiwan.

Restraining the rise of China is perhaps the sole shared strategic objective in U.S. politics. The ongoing struggle over Ukraine sets a precedent for the century era's true strategic contest – the one with China. Russia is viewed in the U.S. as a regional power in decline. Preventing its victory weakens Moscow as Beijing's junior partner. This also breaks energy ties between Europe and Russia and reestablishes American leadership over the Western alliance through a revitalized NATO and the development of new security partnerships in Asia, such as the Quadrilateral Security Dialogue with India, Japan, Australia). These objectives were at least partially achieved in the first year of the war. In the second year, Washington will begin considering how to balance its support for Ukraine with its the primary interest for the Indo-Pacific front. The debate over its ultimate goals in the war, as well as the resources it is willing to develop to it and the risks it is prepared to bear will become more explicit. It is not a given that the interests of Ukraine and the U.S. will fully align on an ongoing basis.

## HOW FOREIGN POLICY WILL CHANGE

America's basic approach to international security will not change in the coming months, as the protracted war in Ukraine continues. However, it could undergo a shift in 2024, after the next U.S. elections. That makes 2023 a year of transition for the United States.

Joe Biden is likely to be the last president of a generation that came of age during the Cold War. He has a vision of the primacy of the United States in the world; and remains committed to the idea that the North Atlantic alliance is necessary if the U.S. is to remain the "essential power" in the global system. The president and his Secretary of State, Anthony Blinken, believe that Western democracies, led by Washington, are en-



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gaged in a systemic, value-based conflict between technocracies against techno-autocracies, in Blinken's phrase. However, this foreign policy vision no longer enjoys unanimous support, either in the highly polarized political system or by a growing portion of the American public. The radical wings of both the Republican and Democratic parties argue, in different ways, that the United States should turn its attention inward. Once the war in Ukraine ends, Washington will focus on U.S. competitiveness and the Pacific theater. The Pentagon has long made it a priority to plan for simultaneous conflict on two fronts – in Europe and in Asia – aware that such a scenario would severely stretch U.S. capabilities. The next American

president, whomever he or she may be, will surely expect Europe to shoulder more of the responsibility for the security and defense of its neighborhood to the southeast – from the eastern borders to the Levant, from the Balkans and the Black Sea to the Mediterranean. All this suggests that the biggest risks – for the stability of the United States and its dominant role in an increasingly fragmented global system – come not only from the outside but also from within its borders, arising from a fractured political system. For Richard Haass, the internal fragility of U.S. democracy is the most significant negative constraint on the ability of the United States to remain at the helm of an international system

tion, monetary policy and the risk of recession at the end of the year?

### ECONOMY FIRST

A popular narrative has it that, in Washington, the P that really matters isn't Putin but rather Powell, the head of the Federal Reserve. So far, the U.S. economy has held up well to his rate hikes. Growth, optimists point out, is stronger and healthier than anticipated in 2022, while inflation will remain moderate, so interest rates will not rise much more. A contending school of thought, supported among others by the eternal pessimist Larry Summers, holds that growth is actually too strong given the resources available. Inflation will in any case remain at levels that will force new rate hikes, with the scenario of a recessionary slow-down towards the last quarter of 2023.

For the Biden administration – Alessandro Fugnoli wrote in *Aspenia* – inflation was exogenous and concentrated on the supply side. First came the supply chain disruptions brought on by the pandemic, then a sharp rise in the price of raw materials, and, finally, the war. In reality, the impacts of these shocks are already priced in. In particular, the price of raw materials has returned to end of 2021 levels, and the war has had no tangible effects on the American economy.

Unlike Europe, America is a net energy exporter: while Ukraine has shifted the global energy balance, that shift benefits the U.S.. LNG exports to the EU, for instance, have tripled. In reality, then, US inflation responds to internal dynamics, rather than being a response to external shocks. Those dynamics include the excess demand created by the enormous fiscal stimulus enacted by the White House and a particularly robust job market. Another driver of inflation was the increase in the price of gasoline (now back to acceptable levels for U.S. consumers), to which the administration responded by selling on the market about half of America's strategic crude stocks after President Biden tried and very publicly failed to push Saudi Arabia to increase oil production.

The energy crisis – so transcendent in Europe – is not and will not become a problem for the U.S. and its business sector. America enjoys a wide variety of available sources of energy, often at lower costs than, Europe, as well as a number of incentives implemented, in the form of tax credits, to support industry in the green transition. The enormous USD 369 billion in subsidies included under the Inflation Reduction Act (IRA), will, Europe fears, distort competition precisely in sectors set to drive its industrial transformation: green energy, because European industry can benefit from such subsidies only in part. While NATO is resurgent, the economic foundations of the partnership between the Western democracies has become precarious. Creating the conditions for a new transatlantic economic agreement on technology and investment should be a priority for 2023. Yet the White House has signaled it will resist

in which China has a revisionist agenda, and where a series of middle powers (from Turkey to Iran) have stepped into the vacuum of U.S. leadership. More and more powers including India and South Africa now play on different tables across policy areas, as seen by their cautious stance toward the war in Ukraine from much of the Global South. An obvious inference, then, is that the rise of Donald Trump was not the cause, but rather a symptom of deep divisions in the United States, divisions that have certainly not healed and seem destined to resurface. President Biden has been able to control these divisions partly due to America's unexpectedly strong economy. But what if that strength falters? What can we expect in terms of infla-



2023 is a year of transition for the United States. President Biden's foreign policy no longer has the full approval of a growing section of the American public, according to which the U.S. should be concerned more with its own internal problems and less with the international system. Photo: New Orleans.



The energy crisis, so important for Europe, is not and will not become a problem for America, given the variety of energy sources available, lower costs compared to Europe, and great incentives launched in the form of tax credits to support industry during the green transition. Photo: Chicago.



major exceptions to the IRA. A protectionist, “Made in America”, stance is here to stay. The question is how successful the policy will prove. According to a recent Washington Post/ABC survey, a large majority of the American public disapproves of the economic performance of the Biden presidency.

From a European point of view, IRA tax credits open up both new opportunities and risks for energy companies in the American market for renewables. Europe has no interest in escalating a trans-Atlantic subsidy race. Rather than opening the floodgates to national state aid, which would benefit producers in the fiscally stronger EU countries to the detriment of those in fiscally weaker ones, it should respond with common European funds. This will prevent any weakening of the internal market, which is the real strength of the European economy. It’s a point repeatedly raised by Italy in Brussels, but one not so far supported by Germany.

### THE STATES, BEFORE THE UNITED STATES

When we Europeans look for the United States, we turn to Washington. But the reality is different. To understand where America is going in 2023, it pays to look at the states, particularly the four biggest ones: California, New York, Florida and Texas. Together, they produce a third of U.S. GDP. As is well-known, the California and New York models are based on relatively high taxes and strong regulation; while Florida and Texas work to attract investment through low taxes and Miami challenges New York’s finance and service sectors. The failure of Silicon Valley Bank will accentuate these shifts.

Naturally, California and New York are led by Democratic governors, Florida and Texas by Republicans. In these mega-states, as *The Economist* describes them, three trends bear watching in 2023: population flows from high- to low-tax jurisdictions, the political agenda marked by the culture wars on abortion, immigration, etc. and the direct confrontation between the next generation of leaders, who see themselves as contenders for National office. This is the case particularly for Ron DeSantis, the big winner in Florida in the 2022 midterm elections: it remains to be seen in the coming months whether DeSantis can become a credible candidate for the White House with an agenda that is not excessively Trumpian. The showdown within the Republican Party will be the decisive political contest of 2023 and 2024.

In short, mega-states are important predictors of the American political climate, including at the federal level, and confirm the divisions between the no-longer so United States. Of course, ideological and political divisions are tempered by economic

considerations. Texas, the oil state par excellence, has seen its renewable energy sector grow faster than California’s in recent years, not due to an ideological conversion to the fight against climate change but because it is less expensive to produce than the alternative.

The political and cultural clash over climate change thus gives way to the invisible hand of the market; helped, among other things, by the very visible hand of the federal state in the form of tax credits.

### THE CHINA FACTOR

In a divided United States, the priority afforded to competition with China remains striking. Late February saw the first meeting of a new bipartisan committee in the now Republican-controlled House of Representatives on how to respond to the rise of China. The premise is the effort to integrate the Asian giant into the global system as a “responsible shareholder” has failed, forcing the United States to try to contain China, not only militarily but also economically and technologically. A sort of “Cold War 2.0”, made much more complicated than its predecessor by the depth of economic integration between the U.S. and its new adversary. We’re seeing a competition between states but also between political systems, centered on the struggle for technological supremacy.

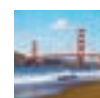
The data confirm this view. In 2022 bilateral trade between them reached the record levels USD 690 billion. On the other hand, technological decoupling is now underway due to U.S. export restrictions, especially for semi-conductors.

Looking at conventional security, there has been an increase in strategic tensions surrounding the Ukrainian crisis and the military balance in the Pacific. The case of the spy balloons over North America in February 2023 – and the White House’s botched response – is a sign of a growing distrust. Washington remains fearful of Xi Jinping’s growing power after the 20th Congress of the Chinese Communist Party.

2023 will bring the terms and limits of this crucial and dangerous relationship into focus. Having lifted its COVID lockdowns, China will focus on salvaging what can be saved of its economic ties with the Western world, and Europe in particular. At the same time, Beijing will not turn its back on Putin, Russia’s now complete geopolitical alignment with China. At the same time, China is strengthening its military projection capability in the Asia-Pacific and is looking to reunification with Taiwan in timeframes that won’t go beyond a few decades. In short, Xi is playing a complex game, straddling the economy security. He cultivates Asian economic partnerships, squeezing regional players who have security agreements with Washing-



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To understand America’s direction in 2023, we need to look at the individual states, especially the 4 most populous, California, New York, Florida and Texas, which together produce a third of the nation’s GDP. Photo: Golden Gate Bridge, San Francisco, California.



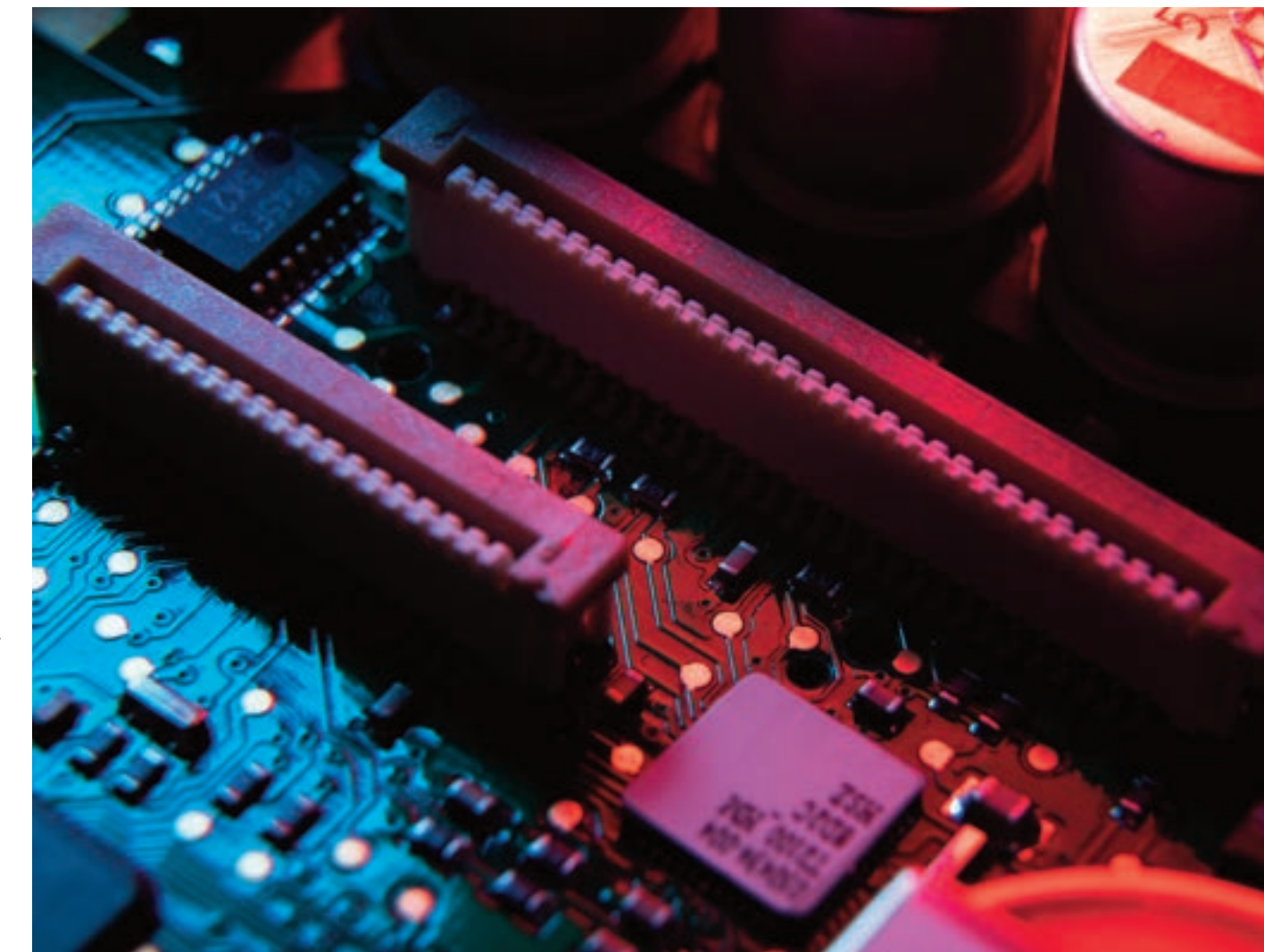
The U.S.-China competition for world leadership plays out mainly in the field of technological innovation. If America wants to prevail, it will have to increase domestic investment and create an environment conducive to rapid development.

ton but cannot afford to give up access to the vast Chinese market; he aims to reduce the centrality of the dollar in relations with the Gulf countries; he aims to bridge the technology gap with the United States and presents China as a sui generis revisionist power: interested in defending globalization, of which it has been a main beneficiary, but also in revising the international order shaped by the United States. Xi Jinping’s speech to the National People’s Congress on March 6th confirmed these trends in unusually explicit tones, including direct criticism of Washington’s containment strategy, which seeks to “suppress” the very possibility of economic growth of the People’s Republic.

The U.S. plays a similar and opposite game, dominated by three aspirations: to maintain its technological edge, which remains large, in particular in artificial intelligence; to increase its deterrence capacity against China across the Taiwan strait, even if that includes the active defense of the island by the United States; and to demonstrate the comparative strength of the democratic system against its main autocratic challenger. It is with these strategic goals in mind—in particular the goal of retaining its technological edge over China—that the U.S. will to measure the strength of its alliances in Europe and in the Indo-Pacific. This complicates life not only for Washington’s Asian partners – starting with Japan and India – but also for its European allies who depend on Chinese exports and investments, such as Germany and Italy. Rome will have to handle the thorny problem of the looming renewal of its Belt and Road Initiative agreement with Beijing, the hangover of a political and diplomatic error it made in 2019. More generally, Europe will have to figure out how to reduce its strategic dependence on China in crucial sectors (such as rare-earth elements) for the development of renewables.

### THE POWER OF TECHNOLOGY

The top technology contest between the U.S. and China will be followed with particular attention in 2023: technology, writes Eric Schmidt in *Foreign Affairs*, will define the future of geopolitics and determine the outcome of the competition of the century. As we have seen, it will not remain a two-player game, it will also bring into play the choices of Europe and a large part of Asia. If the U.S. wants to maintain its leadership, it will have to invest growing resources internally and create an environment conducive to rapid technological development. The power of innovation will become decisive in international politics. Technological change is happening far more quickly than ever before: new artificial intelligence models are becoming “generative”, i.e. the source – again noted by Eric Schmidt – of continuous innovation in other sectors. At the same time, Washington will have to manage its alliances intelligently in an international system marked by partial de-globalization. “Friendshoring” —the flavor of the month not so long



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ago—is revealing itself costly and in partial contradiction with the logic of “Made in America”.

The war in Ukraine will reveal the extent to which China and the U.S. have now entered into an exclusive logic of confrontation across distance; or, on the other hand, the extent to which there is still some margin for agreement on matters of international security.

**we**

### MARTA DASSÙ

Senior Advisor of European Affairs at the Aspen Institute and Editor-in-Chief of *Aspenia*, the Aspen Institute’s journal. She has held various political positions, including that of Deputy Minister of Foreign Affairs in the government led by Enrico Letta.





# GASBOOM

by Anna Mikulska and Mark Finley

2023 WILL SEE THE U.S. TOP THE LEADERBOARD OF LNG EXPORTERS. A SOLID LICENSING POLICY, THE SIGNING OF NUMEROUS CONTRACTS, AND THE INTENSIFICATION OF INVESTMENTS COULD PAVE THE WAY FOR DECADES OF GROWTH FOR THE SECTOR

**T**HE RUSSIAN INVASION OF UKRAINE on February 24, 2022 has made abundantly clear that energy security is a vital element of energy policy and national security. The realization was felt most urgently in Europe, where Russian energy flows have been significantly disturbed either by Russia using its supplies as a geopolitical tool (especially natural gas) or by EU countries joining others in imposing sanctions and import controls (i.e., coal and oil). These limitations have reshuffled world oil and gas flows, with the U.S. playing a central role, especially relative to the EU, where U.S. energy flows have helped with replacing a good deal of Russian oil and gas. For the United States, 2022 highlighted the ongoing importance of oil and gas as energy sources, both in terms of the domestic economy and politics, as well as geopolitically, making the U.S. a country to watch once again in 2023.

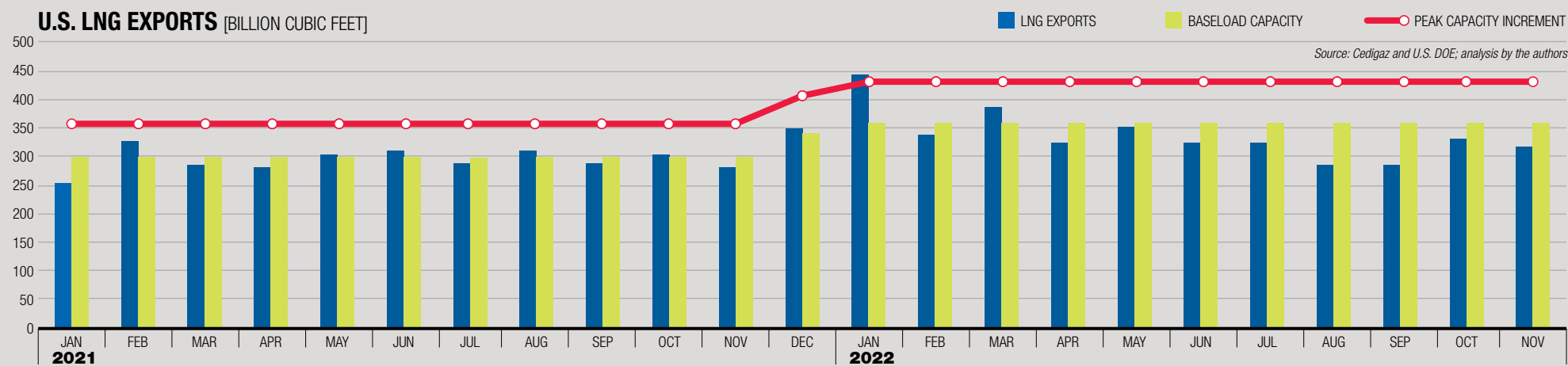
## OIL & GAS: LEADING PRODUCTION AND CONSUMPTION

To set the stage, the U.S. holds the position of the world's largest producer and consumer of both oil and gas. It is, additionally, one of the biggest traders of crude oil, refined products and natural gas. In 2023, the country is also likely to become the world's top LNG exporter, a spot it would have probably held already in 2022 if not for the Freeport LNG export terminal outage in June 2022. Importantly, U.S. oil and gas companies are not state-owned; moreover, most shale oil and gas is developed by independent oil and gas producers on privately owned land. Commercially-minded U.S. entities reacted to high oil and natural gas prices by increasing investment and production last year—though, as we'll see, the pace of investment and production growth was relatively restrained. This will likely continue for the liquid and deep oil market in 2023. For natural gas, and particularly U.S. LNG, 2023 may not deliver immediate gains in volumes but can set a stage for expansive growth later in the decade.

On the supply side, oil production (including crude oil and other hydrocarbon liquids) grew by 1.2 million b/d in 2022—the 2nd-largest increase in the world behind Saudi Arabia. Yet this growth rate was widely seen as a disappointment, well below the record growth of 1.8 million b/d seen in 2019, even though oil prices were much higher in 2022, with the international benchmark of dated Brent averaging over \$100 per barrel, compared with about \$65 in 2019. Natural gas production has similarly risen to record levels (well beyond 100 bcf/d).

A major issue for U.S. producers in 2022 was investor pressure for spending discipline. After years of poor returns, financial investors have pressed companies to emphasize cash flow rather than production growth. And while U.S. companies did ramp up investment and drilling in 2022, the pace of growth was relatively modest (especially given the increase in prices), resulting in record cash flow in 2022. Financial discipline appears likely to remain a focus for U.S. oil and gas producers in 2023. Current





Starting in 2021, U.S. LNG exporters have guaranteed record supply volumes to Europe. It cannot be taken for granted that similar quantities of U.S. gas will continue to reach Europe in 2023, due to the impressive growth in demand expected in other areas of the world.

oil price projections suggest the industry will once again have space to increase drilling at a measured pace while maintaining robust financial returns, which will also contribute to growth in associated gas production. The same is unclear for pure natural gas plays as domestic prices of the resources slumped significantly following mild winter conditions and high storage inventories. In addition, inflation and labor and equipment shortages could potentially slow down growth in natural gas production in the U.S. in 2023.

### RECORD VOLUMES FOR LNG EXPORTS

Arguably, however, the biggest energy story in the U.S. has been the country's rapidly growing LNG exports. U.S. LNG export companies have worked overtime to deliver record volumes of LNG since 2021 when Europe called on LNG due to decreased Russian gas flows and Russian gas storage in Europe fell to unprecedented lows. But even though much of that LNG sailed toward Europe last year (Figure 1), it is unclear whether similar amounts of U.S. LNG will reach European shores in 2023 or later on—less a function of U.S. dynamics, and more due to the prospect of more robust demand for LNG elsewhere.

Most of the LNG produced in the U.S. becomes the property of the buyer as soon as it's loaded onto an LNG tanker. The fuel is considered free-on-board (FOB), as the buyer has the flexibility to move the fuel to any location (within contract limitations). For buyers of U.S. LNG (aggregators such as oil and gas majors, traders, and even state companies) this often means selling the liquefied gas to the location where price yields the highest profit. Last year, this was Europe given exorbitantly high prices caused by cuts in Russian gas supply (figure 2) and the need to fill storage ahead of the 2022/2023 winter. The U.S. administration helped with a heavy drive of energy diplomacy with U.S. Asian allies such as Japan and Korea.

It is unclear to what extent the patterns will hold in 2023, however. Prices will be of prominent importance and those will be based on the demand and weather, both in Europe and in Asia. Industrial recovery in China will also be a factor as the end to the country's Zero-COVID policies could mean a recovery in gas

demand and an end to redirecting significant volumes of contracted LNG, including destination-flexible U.S. LNG, to Europe. In addition, there is no significant upside in terms of new LNG volumes for the global market from the U.S., as no new LNG export facility is slated to begin operation in 2023. The re-opening of Freeport LNG will be a slow driver of growth in U.S. LNG exports, instead. The terminal is currently ramping up and should be at its full capacity of 2.38 bcf/d this May.

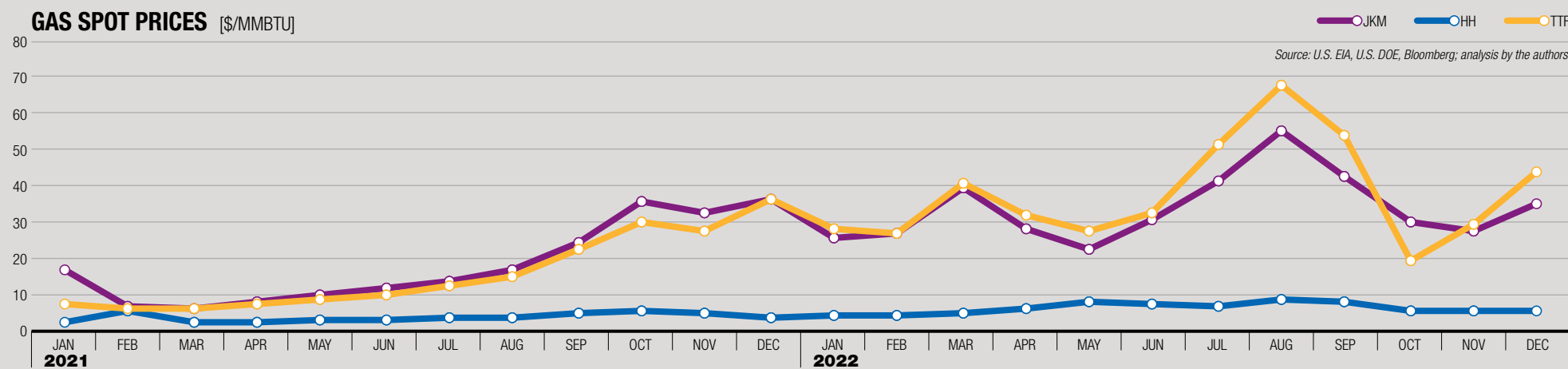
Tight markets and exorbitant prices in 2022 have brought record LNG sales and contracting activity for U.S. companies. However, the year was underwhelming in terms of new final investment decisions, with only Plaquemines and Corpus Christi plants getting final approval. However, the stage has been set for the post-2023 period and vigorous FID activity. Currently, the U.S. has export capacity of 14 bcf/d, with 11.2 bcf/d under construction and another 14.3 bcf/d licensed to be developed. Significantly more could be added if one considers all capacity currently under review. Of course, not all of this capacity will be built. Much will depend on the ability to secure long-term contracts that provide sufficient guarantees for financing at a time when costs and interest rates have been rising.

Insufficient pipeline infrastructure to bring the gas from supply to demand centers could prove a significant obstacle to LNG buildout in the U.S. This includes gas imports from Canada as they can support domestic U.S. consumption and free up U.S.-produced gas volumes closer to LNG export infrastructure. At the same time, pipeline expansion from the U.S. and into Mexico could both support Mexico's demand and also enable re-exports to the global market if the proposed LNG export infrastructure is developed.

### THE RISKS TO SUPPLY IN 2023

Key risks for U.S. oil and gas (including LNG) supply in 2023 include:

- Cost inflation – a reflection of the general inflationary environment and a constrained supply chain for key inputs including oilfield services, labor, drilling pipe, and sand for fracking operations – could put additional pressure on com-



- Productivity of new shale wells has begun to decline in the major basins (the Permian, Bakken and Eagle Ford), challenging growth prospects.
  - Gas production could also decline, especially for non-associated gas, if prices of natural gas in the U.S. continue at the low level they have been in early 2023. In February, prices fell to a third of the average Henry Hub price for 2022. Even though new demand for exports from Freeport LNG could help, infrastructure capacity limitation put a definite ceiling on potential LNG exports.
  - As always, hurricanes in the Gulf of Mexico pose risks to both offshore production as well as onshore facilities including oil wells, refineries and pipelines, and LNG export terminals.
- On the policy front, last year's price spikes for gasoline and diesel fuel forced the Biden Administration to acknowledge the ongoing importance of oil and natural gas for U.S. economic interests, even as it continued an aggressive push for a rapid energy transition. The President's approval rating fell as prices at the pump rose. Combined with the Russian invasion of Ukraine, this resulted in a number of high-profile policy moves last year, including:
- The release of 220 million barrels from the country's strategic petroleum reserve as part of a coordinated emergency release by members of the International Energy Agency, the largest-ever withdrawal from the U.S. stockpile;
  - Aggressively pushing U.S. companies to ramp up investment;
  - A personal visit by President Biden to Saudi Arabia, in a failed attempt to persuade the Kingdom to raise production;
  - Energy diplomacy to redirect LNG volumes to European allies.
  - Working with the G7 countries to implement a price cap on Russian crude oil sales in December 2022, followed by a cap on refined product sales in February of this year. The key objective of this policy was to avoid further price spikes by allowing Russian exports to continue while simultaneously reducing Russia's oil revenues.
  - The Inflation Reduction Act, seen as landmark legislation

with the potential to significantly alter the medium- and long-term prospects for oil and gas demand (and the U.S. energy system more broadly)—although these impacts are unlikely to significantly affect the outlook for 2023.

On the demand side, while the U.S. remains by far the world's largest oil and gas consumer, prospects for demand growth in 2023 are weak. The combination of consumers reacting to high prices, new work patterns post-COVID, and a constrained economic growth outlook led the U.S. Energy Department to project that demand for oil will be broadly flat, after growing by about 400,000 b/d last year. The continued rapid growth of EV sales will increasingly weigh on gasoline demand, though the time needed to turn over the vehicle fleet means this is more likely to be an issue beyond 2023. For natural gas, domestic demand will depend on weather patterns while demand for LNG will continue to be constrained by the capacity of exporting infrastructure. Nevertheless, 2023 is likely to be an important moment for U.S. LNG's ongoing development. Strong permitting, contracting, and FID activity in 2023 will likely set the U.S. up for decades of growth. Failure to do so could significantly hamper U.S. LNG development going forward, with non-U.S. LNG producers capturing markets.

### we

#### ANNA MIKULSKA

Anna Mikulska is a Fellow in Energy Studies at Rice University's Baker Institute for Public Policy. In her capacity as a fellow, she co-leads the CES Program on Energy and Geopolitics in Eurasia. Her research focuses on markets and the geopolitics of energy.

#### MARK FINLEY

Mark Finley is a fellow in energy and global oil at Rice University's Baker Institute. He has over 35 years of experience working at the intersections of energy, economics, and public policy. Before joining the Baker Institute, Finley was the senior U.S. economist at BP. For 12 years, he led the production of the BP Statistical Review of World Energy.

The graph shows the trend in natural gas spot prices (monthly averages) in the United States (HH), Europe (TTF) and Asia (JKM) in the two-years of 2021 and 2022. Prices peaked in August 2022 in Asia and even more so in Europe.

The United States is the world's largest producer and consumer of oil and gas and a major exporter of gas, crude oil and refined products. Photo: Alaska gas production plant.



# GUYANA

AN ECONOMIC  
MIRACLE

## THE FASTEST GROWING GDP IN THE WORLD

Guyana, the second poorest country in Latin America, has one of the fastest growing GDPs in the world. According to data from the International Monetary Fund, GDP grew by 43 percent in 2020, by 24 percent in 2021, and by 57 percent in 2022. In 2023, expected growth is 25.2 percent.

Source: International Monetary Fund

## TOTAL OIL PRODUCTION [THOUSANDS OF BARRELS A DAY]

Guyana is one of the regions in the world that started producing oil most recently: in December 2019, it performed the first sampling of quality crude oil. Between 2021 and 2022, its production grew by more than 220 percent. All of the crude oil is sent overseas for refining.

Source: processing of data from Reuters





# THE NEW

by Moisés Naím



© IPA

# ENERGY

# STAR

LONG A BACKWATER, GUYANA IS SUDDENLY POISED TO BECOME AN UNLIKELY ENERGY POWERHOUSE ON THE FRENETIC WAVE OF ITS OFFSHORE OIL BOOM

**W**HEN IT COMES TO FLYING beneath the radar, few countries on earth can hold a candle to Guyana. A diminutive, sparsely populated strip of coast sandwiched between the Atlantic and the vast jungles of South America, Guyana is notable as the only country in the Western hemisphere where hindus outnumber all other faiths. This peculiarity—a tell-tale sign of its British colonial history—comes hand in hand with dysfunctional politics and, of late, some of the world's largest untapped oil reserves: a combustible mix.

## A VERITABLE ENERGY POWERHOUSE

Long off the map, Guyana is on its way to becoming an unlikely energy powerhouse on the back of a frenzied offshore oil boom, where exploration over the last decade has been more successful than anyone could have guessed. The country's proven reserves now stand at 11 billion boe, much of it light sweet crude in relatively shallow waters. The country is producing some 360,000 b/d now, but will likely be beyond a million before this decade is out: an overnight energy power. This long-forgotten South American outpost will soon be home to the biggest oil boom of the 21st century.

What will this overnight bonanza mean to the country's 789,000 inhabitants? There is plenty of good reason to fear for the answer to this question. A very large, very bleak academic literature has sprung up over the last few decades to document the 'resource curse'—how national resource endowments can, paradoxically,

blight a country's prospects by turning its politics toxic and its other industries uncompetitive.

The studies converge on a single insight: countries tend to do okay if they strike oil after they've developed sturdy democratic institutions. Norway and Canada, for instance, were consolidated democracies long before they'd made their major resource finds, so those finds didn't endanger those democracies. But for countries like Kuwait, Brunei, and Angola that struck oil before they'd fully democratized, oil wealth can become an albatross hung around their necks, retarding their development and distorting their politics in destructive ways.

## WHEN THE STABILITY OF A DEMOCRATIC GOVERNMENT IS LACKING

When a country finds mineral wealth before it's democratic, political leaders tend to lose all interest in taxation: why upset people by taxing them when you can just pump your tax base out of the ground? But governments that don't depend on society for their fiscal stability soon lose interest in serving society's interests because why should they? Their revenue base doesn't depend on how well society is served with public services.

The result, most often, is the Rentier State: a type of government centered on extracting natural resources and then channeling the revenue to particular, favorite constituencies. Countries that face deep ethnic or tribal divides are especially prone to this kind of scenario, with the government becoming just a tool that one group uses to monopolize resource rents and shut out rival groups. This is a good reason to worry about what may come next for Guyana, where many of the prerequisites for developing a nasty case of the Resource Curse seem to be very much in place. Owing to the vagaries of British colonial history, Guyana's population is split sharply along racial lines: 40 percent Indian, 30 percent African, 10 percent indigenous, and the remaining 20 percent mixed. Ominously, its politics is split along similar lines, with a dominant People's Progressive Party drawing its support mainly from Indo-Guyanese. In contrast, the opposition People's National Congress draws much of its support from Afro-Guyanese. What happens when you drop a gusher of oil money into a political system structured that way? A vicious ethno-partisan split





© IPA

often develops, with partisans developing a winner-takes-all attitude that raises the stakes of political power to dangerous extremes. With its history of on-and-off intercommunal violence, Guyana seems badly exposed to this kind of outcome.

**THE SOLUTION LIES IN INCLUSION**

So what is to be done? First, Guyana's leaders need to create a framework for dividing their newfound wealth in a way that limits destructive political competition. Their goal should be to lower the stakes of election so no group feels like a loss at the ballot box shuts them out of participation in the country's oil bonanza. This can be achieved with distributive mechanisms that depoliticize, to some degree, the distribution of rents, lowering the political temperature and dousing the passions of those competing for power.

The good news is that, given its small population and outsized oil wealth, Guyana will have plenty of money to go around. If its leaders learn from the mistakes made by yesteryears' oil-cursed countries, they could sidestep their fate, building a broad-based

prosperity that obviates the drive for communal violence. If they get it wrong, though, the world's newest Oil Power could end up as the world's latest basketcase.

**we**

**MOISÉS NAÍM**

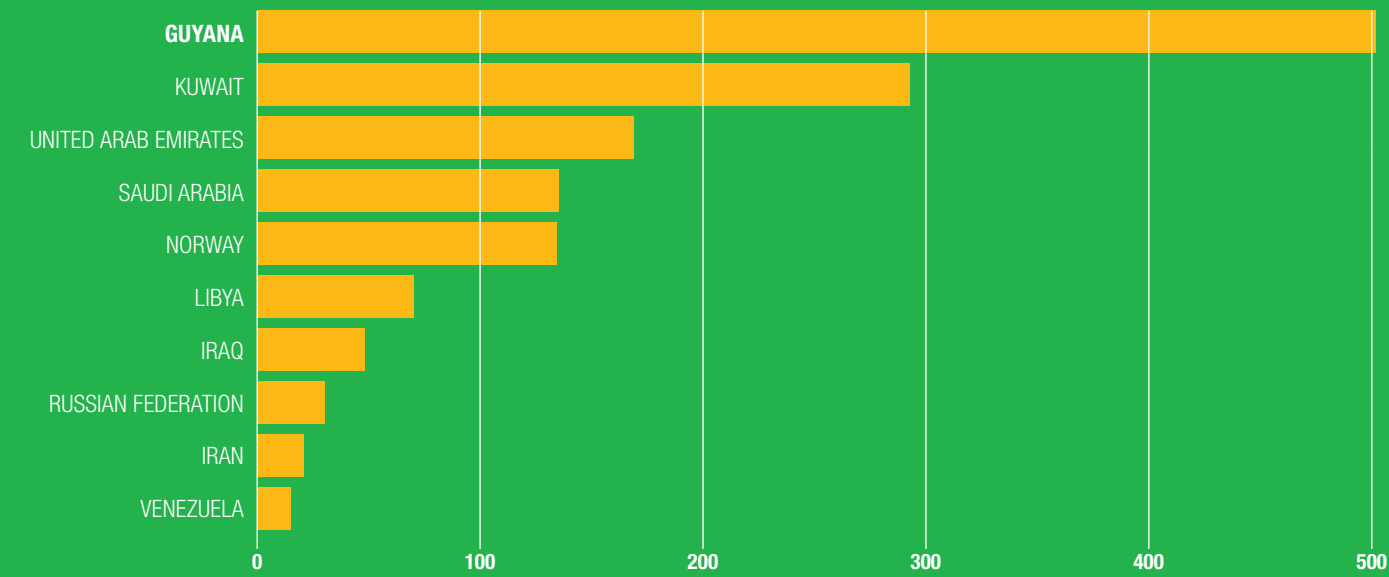
He is a Distinguished Fellow at the Carnegie Endowment for International Peace in Washington, D.C. and a founding member of WE's editorial board. His most recent book is *The Revenge of Power: How Autocrats are Reinventing Politics for the 21st Century*.



Guyana, a long-neglected South American outpost, is set to become an energy powerhouse, currently producing about 360,000 barrels per day and likely to exceed one million by the end of the decade. Photo: Amazon rainforest, Guyana.



Given Guyana's oil boom and subsequent economic growth, its leaders must create a new wealth sharing framework involving distributive mechanisms. Photo: Children in a market, Guyana.



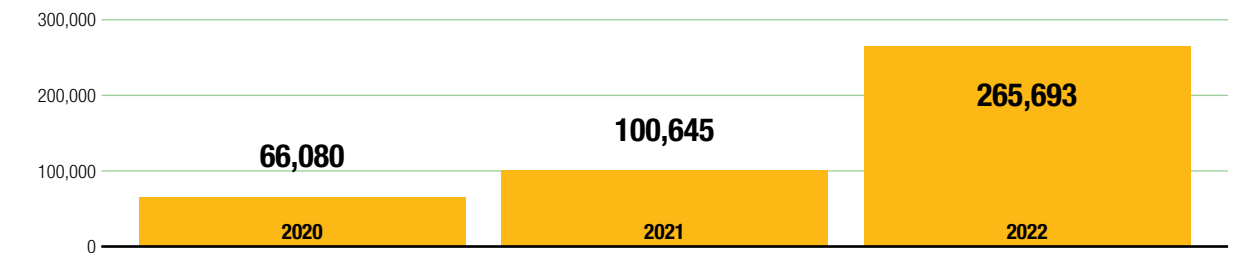
**PER CAPITA PRODUCTION OF OIL [Barrels to 2027]**  
 Guyana produces about 360,000 barrels per day (bpd) of oil and aims to increase production to 1.1 million barrels per day by the end of the decade. The gigantic oil fields will provide enormous wealth to this nation of just 0.8 million people. Guyana's per capita production will also eclipse that of major Middle Eastern producers, Kuwait, the United Arab Emirates, and Saudi Arabia in the coming years.

Source: Wood Mackenzie

**THE BOOM IN EXPORTS [Barrels per day]**

Crude oil exports from Guyana nearly tripled in 2022, encouraged by rising production and robust demand in Europe in the aftermath of the Russian invasion of Ukraine.

Source: Refinitiv Eikon

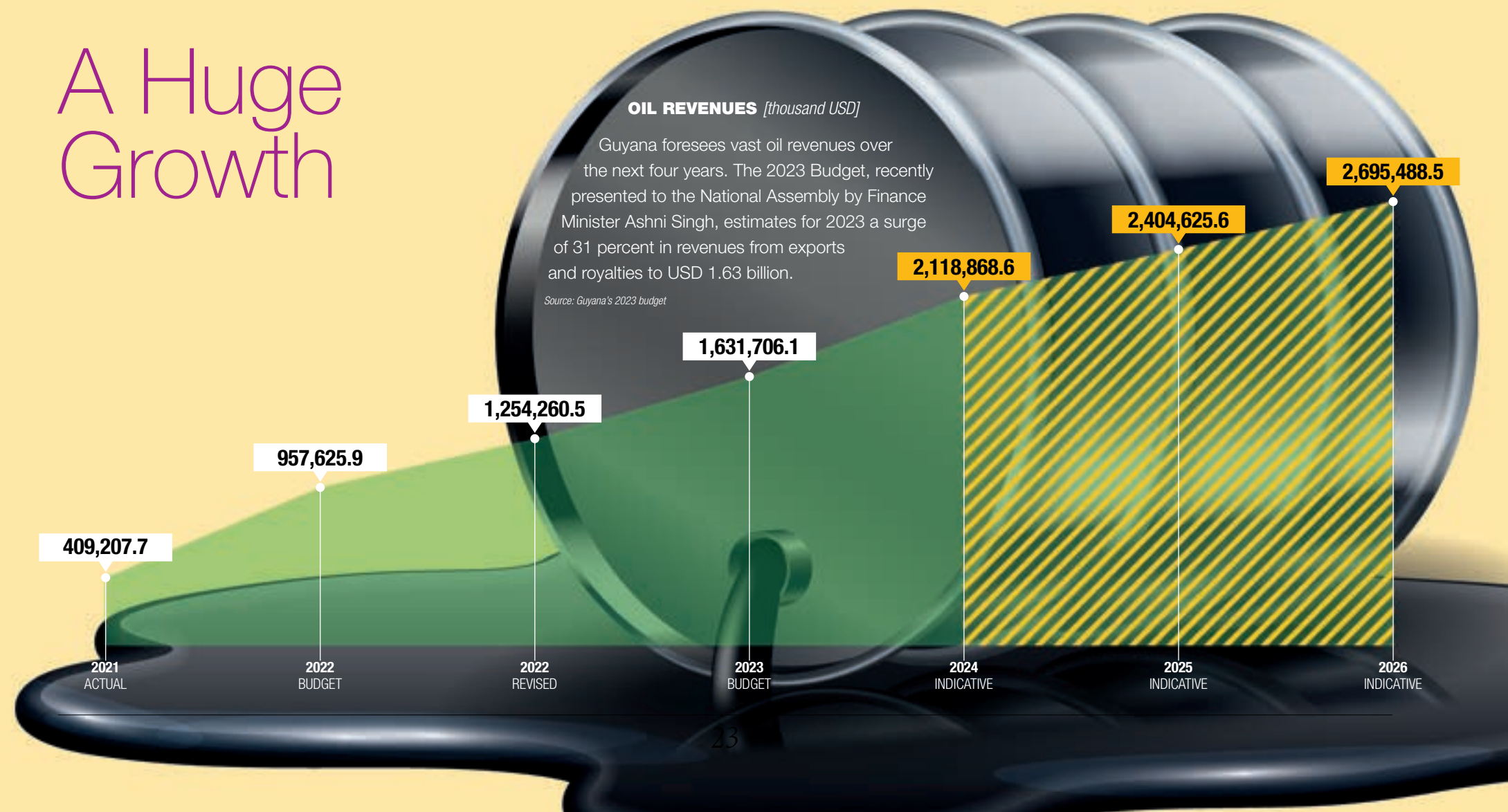


**A Huge Growth**

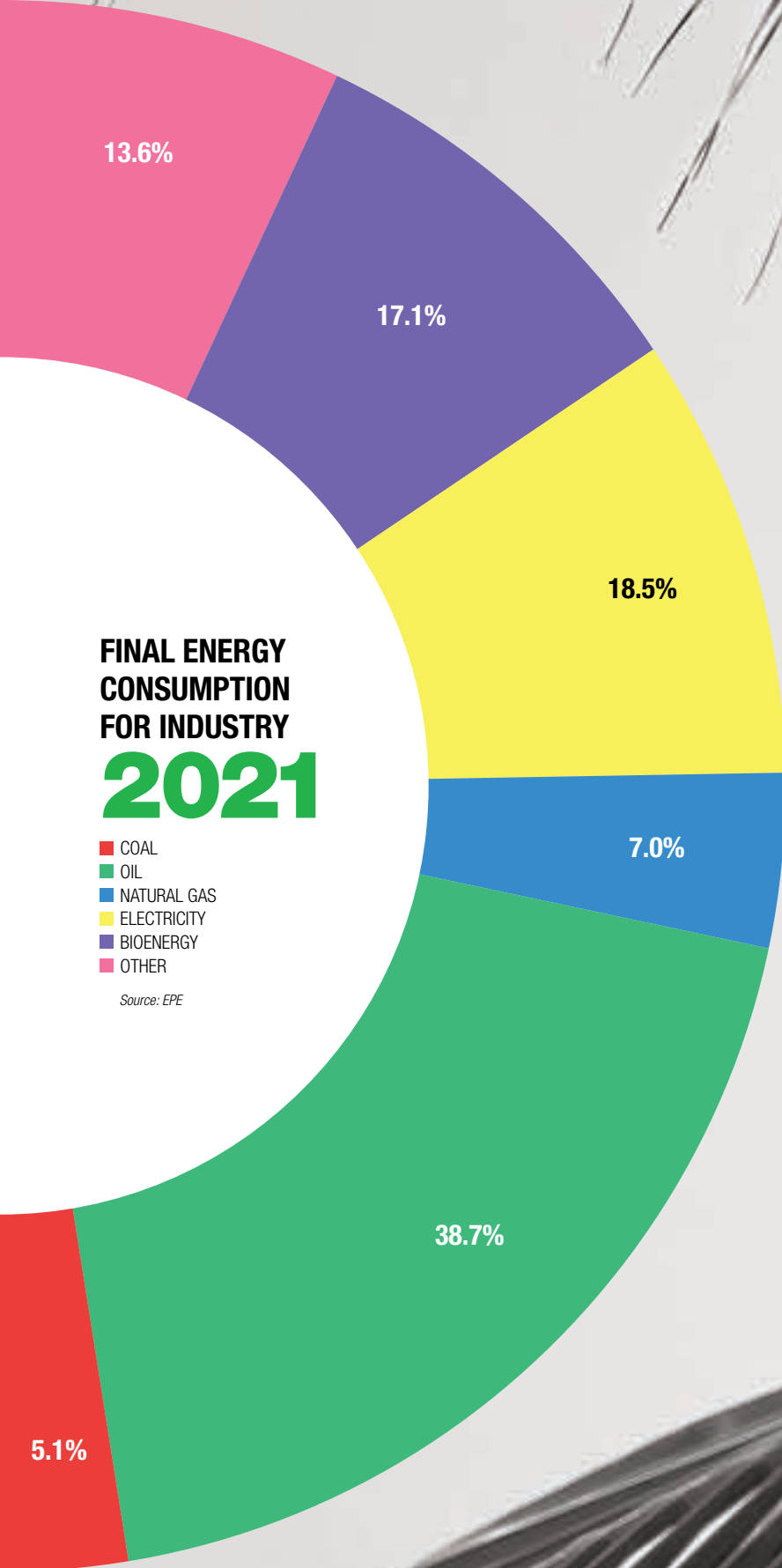
**OIL REVENUES [thousand USD]**

Guyana foresees vast oil revenues over the next four years. The 2023 Budget, recently presented to the National Assembly by Finance Minister Ashni Singh, estimates for 2023 a surge of 31 percent in revenues from exports and royalties to USD 1.63 billion.

Source: Guyana's 2023 budget

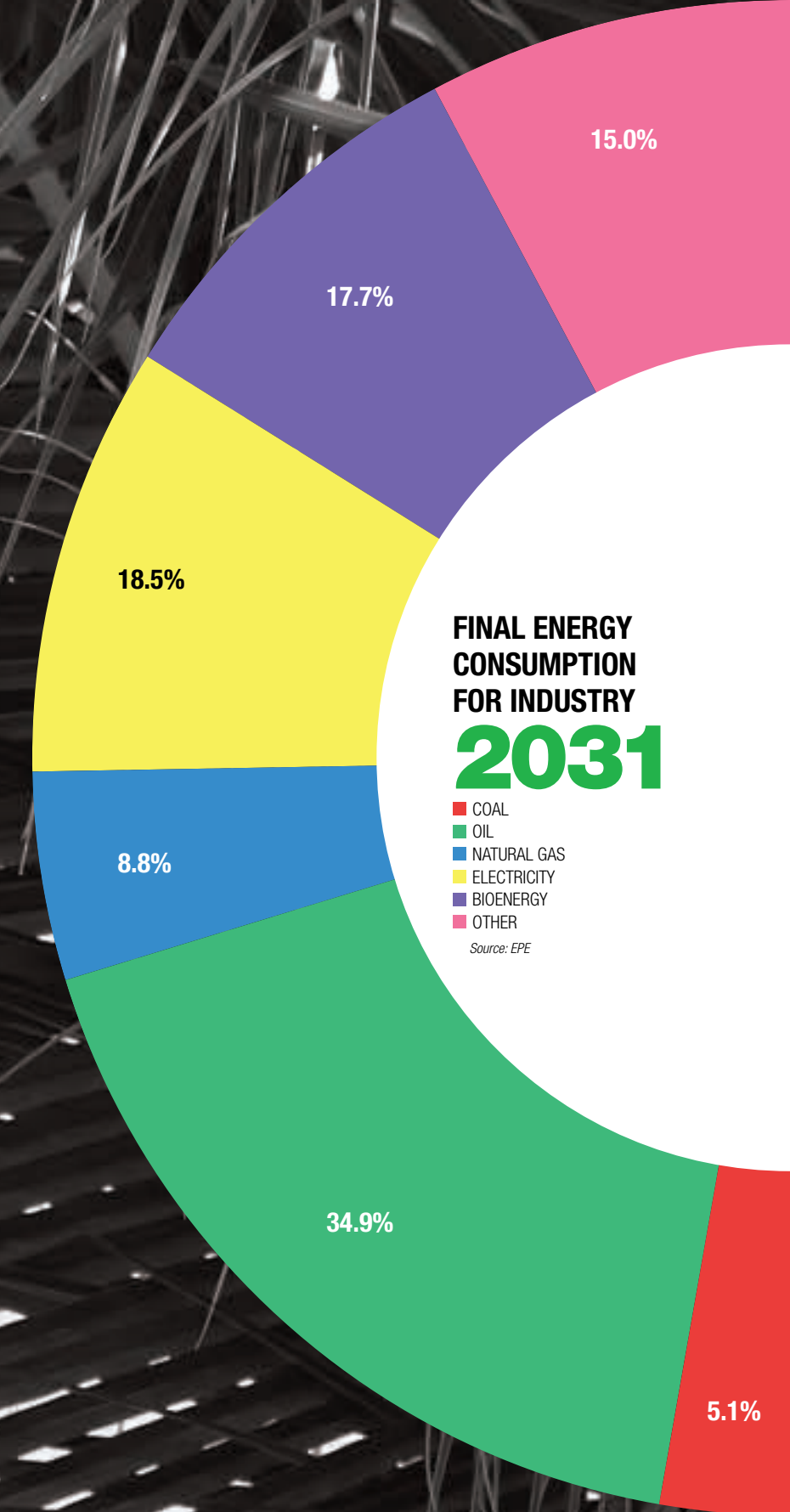
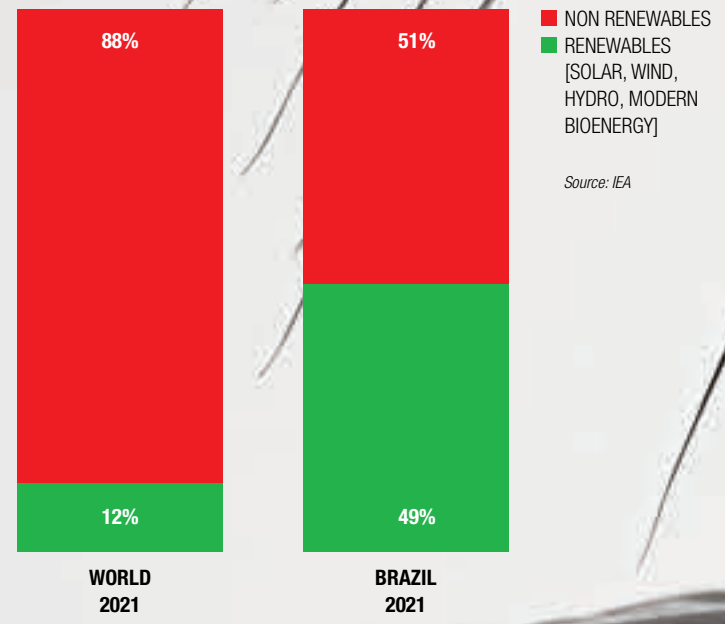






**ENERGY MIX AND CONSUMPTION FOR INDUSTRY [2021-2031]**

Almost half of Brazil's energy mix involves the use of renewables, a remarkable figure especially when compared to the world energy mix (below). As for final energy consumption for industry, in the comparison between 2021 and 2031, we see that oil remains the main source of Brazil's energy mix, with the difference being that in 2031 the share of oil recedes in favor of gas.



**BRAZIL** A GLOBAL PLAYER



# LULA RESTARTS WITH CLIMATE

by Tiziano Breda

THE ENVIRONMENT IS ONCE AGAIN THE PRIORITY FOR THE COUNTRY, BUT THE NEW PRESIDENT FINDS A MORE COMPLEX SITUATION THAN IN HIS PREVIOUS MANDATES: THE PANDEMIC, THE WAR, AND AN ONGOING RECESSION, ALL MADE WORSE BY THE CHAOTIC LEGACY OF THE BOLSONARO ERA



© FREEPIK

**U**NDER PRESIDENT Luiz Inácio Lula da Silva, Brazil is back as a leading actor in the climate change and environment protection debates, as it was during his first two terms (2003-2010). However, the country he now runs is much more polarised than before, facing greater economic distress and dealing with the environmental damage caused by his predecessor, Jair Bolsonaro, amid major disruptions in global politics and trade.

Two opposing views of the world faced off in the recent presidential race, and their differences were epitomized by the dichotomous presidential plans on environmental issues. On one end of the spectrum stood Bolsonaro, supported by agro-

industry, which regards the country's natural resources purely in terms of economic development, regardless of the environmental or human cost their unregulated exploitation may cause. On the opposite end, Lula's government plan was anchored on the need to protect the rainforest and meet the Paris Agreement's goals, though sharing with his opponent the acknowledgment that fossil fuels will remain crucial for the country's functioning for a while.

## THE CLIMATE ISSUE AT THE CENTER OF POLITICAL STRATEGIES

Lula made the environment a leitmotiv of his national agenda,

centering it on three pillars: institutional strengthening, legislative reforms, and international cooperation. Obviously, many of his proposals drew on his previous governments' successes and carry an inherent, symbolic political objective: to dismantle Bolsonaro's legacy and reverse his administration's horrendous record of environmental degradation. Environmental policies are also conceived as central for Brazil's comeback as a relevant global actor and as a driver of regional integration.

At the COP27 Summit, Lula reiterated his commitment to repeating the performance of his previous presidency, when deforestation plummeted by a stunning 70 percent, according to PRODES. He pledged to intensify efforts to curb illegal gold



mining, logging and agricultural expansion, and to restore climate-critical ecosystems. At the January 2023 Summit of the Community of Latin American and Caribbean States (CELAC) – where Brazil returned following Bolsonaro's withdrawal from the forum in 2020 – he argued that collaboration on such issues as energy transition, climate change and food security, can strengthen the region's global projection. To that end, he announced that Brazil will host a summit of Amazon countries and presented its candidacy to host COP30 in 2025. Brazil will also chair the G20 in 2024 and the BRICS grouping in 2025, sensitive fora to foster international cooperation on these and other issues.

On his first day in office, Lula issued six decrees revoking the previous government's legislative agenda. They would have encouraged mining in protected areas and eased access to firearms. Lula also reinstated the Amazon Fund, which foreign governments can use to help pay for the preservation of the rainforest. On the institutional front, his government created a Secretariat for Climate, Energy, and the Environment under the Ministry of Foreign Affairs, while also establishing a Permanent Interministerial Commission for the Prevention and Control of Deforestation. The new Minister of Environment, Marina Silva, also announced the creation of a National Authority for Climate Security that, if approved by the Brazilian Congress, will oversee the execution and implementation of the country's climate policy. Meanwhile, a massive operation to undercut the fuel and food supplies of wildcat gold miners in Roraima state, known as garimpeiros, has forced hundreds of them to abandon those lands where their activities have poisoned local aquifers and triggered local conflicts, prompting a humanitarian crisis among the Yanomami indigenous peoples.

#### GREATER OBSTACLES CALL FOR NEW ALLIANCES

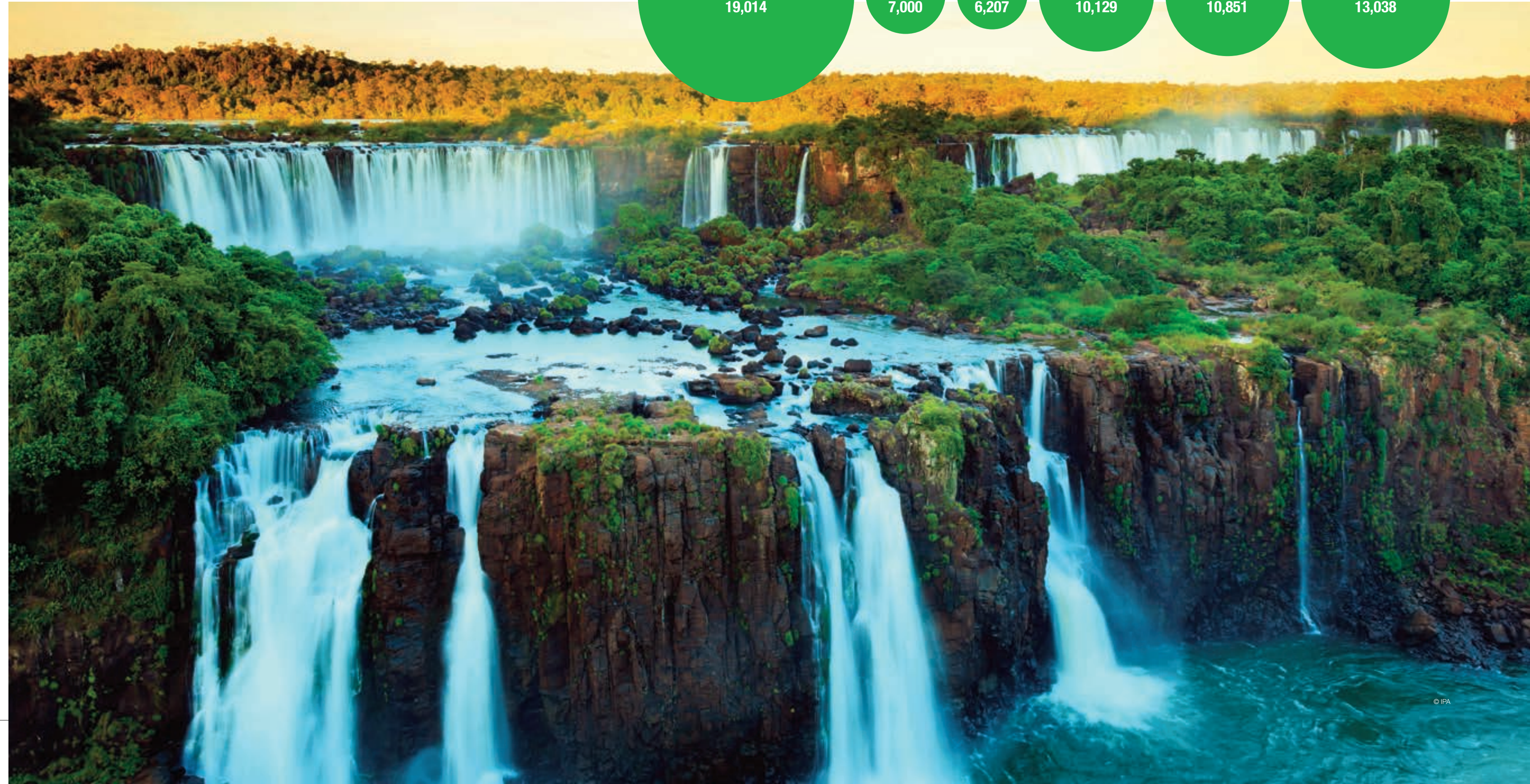
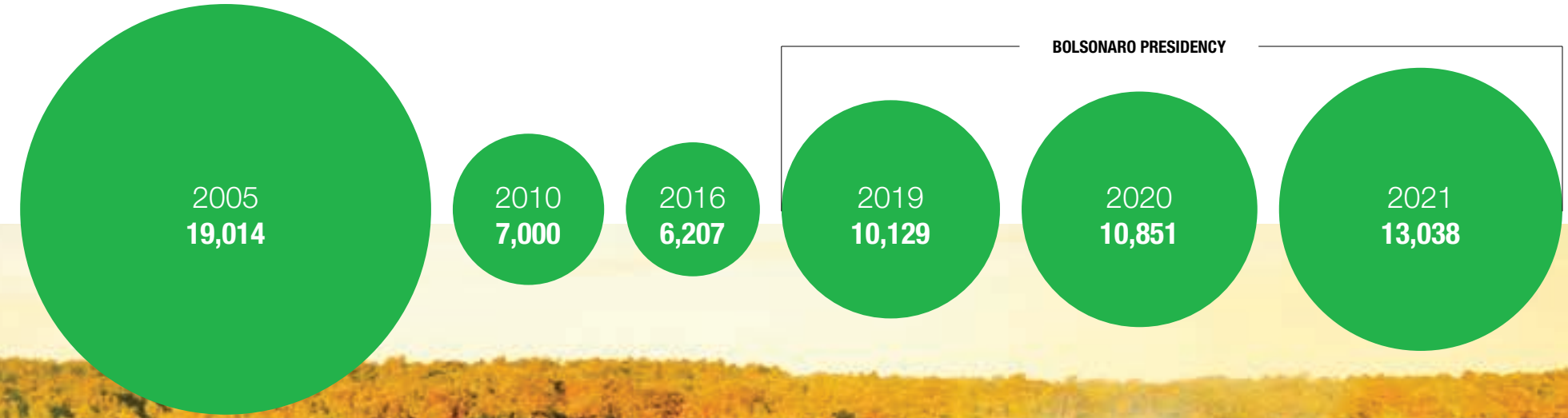
But despite the good intentions, Lula will face an uphill battle as he seeks to implement his ambitious agenda. The first set of constraints concerns the domestic politics of a country that is much more divided than two decades ago. Lula won the presidential race by a very thin margin (with just 50.9 percent of votes), and his allies do not control either chamber of Congress, where a good number of Bolsonaro's allies were elected. As a result, though the recently re-elected heads of the House and Senate are in good terms with his government, the president will need to make new allies and negotiate with a range of political and economic sectors to pass legislation that reverts Bolsonaro's pro-exploitation bills.

Brazil is more polarised than ever, as shown by the electoral outcome but especially by the January 8th mass assault to some of the most important state buildings in Brasilia. A significant swath of society blindly and radically follows Bolsonaro and, alleging fraud despite having no evidence, refuses even to recognize Lula as legitimate president. Bolsonaro, after all,

## The Fallen Forest

Deforestation in Brazil has soared during Bolsonaro's years in office. According to WWF, in the four years that Bolsonaro has been in power, 45,586 km<sup>2</sup> of forests have been destroyed, an area larger than that of Denmark: a record figure since 2009. [Data in square kilometers].

Source: Brazil's National Institute for Space Research.





never acknowledged the defeat and did not show up to the new president's swearing-in ceremony. The events of January 8th, when thousands of right-wing fanatics were given free rein to storm the Congress, the presidential palace and the Supreme Court, attest to the risk that the erosion of democratic values and the leniency of part of the institutional machinery represent for the governability and stability of the country. Bolsonaro, who was keeping a relatively low profile in Florida when the assault took place, announced his return to Brazil and is likely to stir his supporters toward permanent confrontation. The resumption of serious environmental policies may also not be enough to reverse the havoc wreaked by the Bolsonaro administration. According to the WWF, "in the four years of Bolsonaro's administration, 45,586 km<sup>2</sup> of forests were destroyed – an area larger than that of Denmark." Such a pace of defor-

estation was unseen since 2009. Besides unconstrained logging, a good part of the rainforest was lost due to massive wildfires that set thousands of hectares ablaze, and which, some observers suspect, were the result of arson intended to make room for cattle ranches and soybean farms. Institutionally, the Bolsonaro administration undercut the budget for Brazil's environment agencies by more than 70 percent from the 2014 baseline, leaving it at its lowest level in 17 years. Scientists worry that the combination of unchecked logging, disrupted rain cycles and biodiversity loss could send the Amazon over a tipping point within a decade, transforming it into a savannah. Lula's task is not merely to slow down deforestation, but to reverse it through reforestation, while funnelling a new influx of resources into moribund environmental agencies.



© IPA



Currently serving his third term in office, President Lula of Brazil has made the environment one of the main issues on the nation's agenda. Under his leadership, the country has once again become a major player in the climate change debate.



President Lula of Brazil submitted his country's candidacy to host COP30 in 2025. In addition, Brazil will preside over two strategic forums to foster international cooperation, especially on environmental issues: G20 in 2024 and BRICS in 2025. Photo: Avenida Atlantica, Copacabana, Rio de Janeiro.

pandemic, after the U.S. The government spent some US\$60 billion on mitigation measures, including cash transfers to the poorest, bringing the country's debt to around 90 percent of GDP in 2020. The mismanagement of the pandemic impacted the livelihood of millions of Brazilians. In 2021, according to an FGV Social study named "New Poverty Map," 62.9 million Brazilians —29.6 percent of the country's population— were below the poverty line, the highest level in a decade.

During his first two terms, Lula championed poverty reduction policies, helping lift some 20 million Brazilians out of poverty, but the world was not struggling to recover from a pandemic, or from the upheavals set off by war in Ukraine. The Economist argues that a global recession is virtually inevitable in 2023 due to the combination of geopolitical strains, which has opened an era of uncertainty for global markets, marked by

commodity prices shocks, particularly in the energy sector, that followed Russia's invasion and the subsequent sanctions imposed by the EU and the U.S. on Russian oil and gas, among other sectors; and the eventual loss of macroeconomic stability, with inflation and interest rates both spiking. These constraints are also likely to increase the reliance of ever more states on fossil fuels, delaying the green energy transition. In Latin America, these dynamics have translated into a surge in fuel and fertilizer prices. Of course, both fuel and fertilizer are key to maintaining agricultural exports and in-

country consumption, so upheaval in these markets adds to chronically high levels of food insecurity in a region increasingly exposed to droughts and extreme weather events.

### THE WAR AND CONSOLIDATED RELATIONS WITH RUSSIA

Finally, heightened tensions between global powers arising from the Ukraine war narrow the space for international cooperation, including on topics such as environmental protection. Russia's invasion of Ukraine challenged the rules-based international order and tested multilateral institutions' ability to act as guarantors of that order. But this readout, unquestioned in most Western countries, hardly resonates in Latin America. Perceived as distant and as a clash between global powers, the war has reawakened the region's Cold War-



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era preference for non-alignment, crystallized by widespread neutrality in UN votes. Brazil, Russia's most important economic partner in Latin America together with Mexico, was no exception, either under Bolsonaro or under Lula. On the contrary, Bolsonaro moved to strengthen ties with Russia in 2022, visiting Moscow weeks before the invasion and stepping up Brazil's purchases of Russian diesel by 15 percent. Lula has condemned the invasion but rejects military aid to Ukraine. The Ukrainian conflict has absorbed the agenda not only of UN political bodies, but also other important multilateral fora such as the G20. Finally, the BRICS group has become a sort of lifesaver for Russia, making it harder to insulate discussions

on climate change from the political role of the group on the global scene.

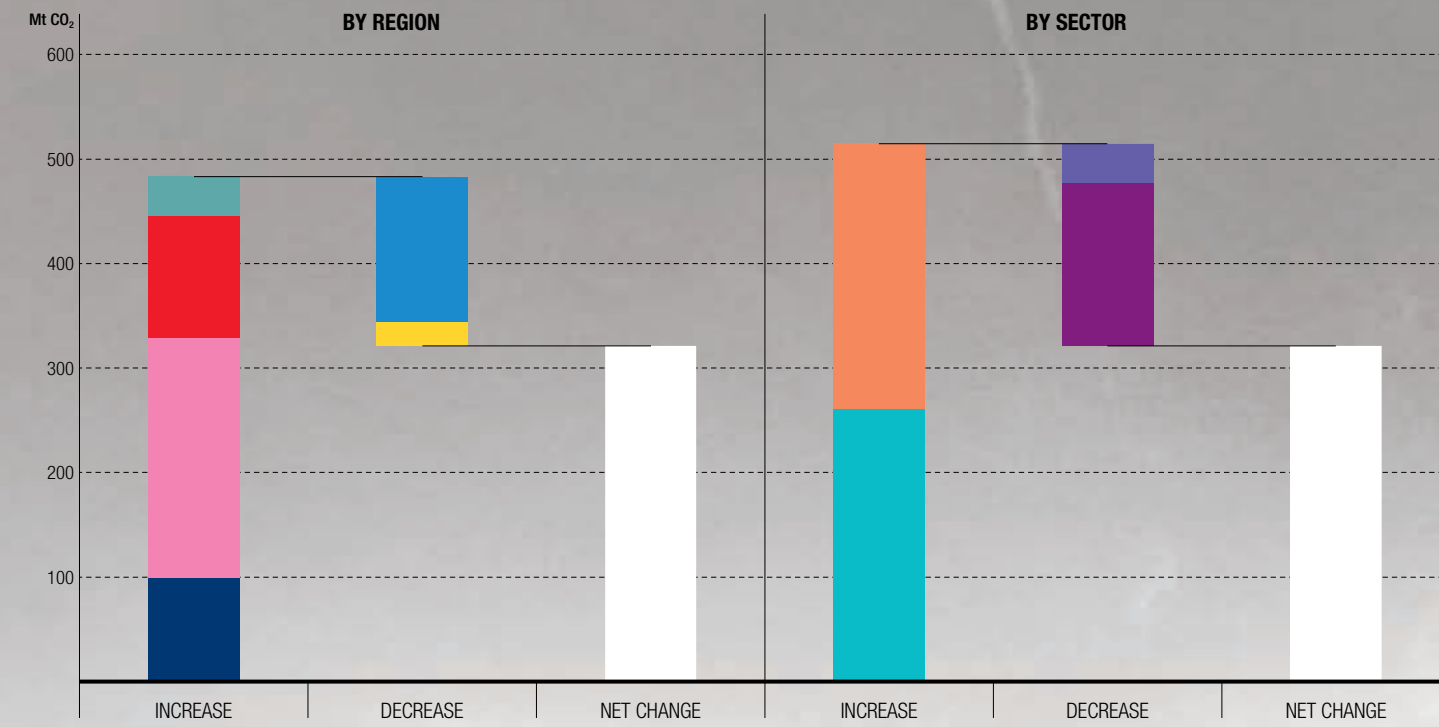
Brazil's return as a key advocate of environmental protection and promoter of the green energy transition must be celebrated, but domestic and international constraints make its success anything but certain.

**we**

**TIZIANO BREDA**

Researcher in the IAI Global Actors Programme, where he works on international politics and security.





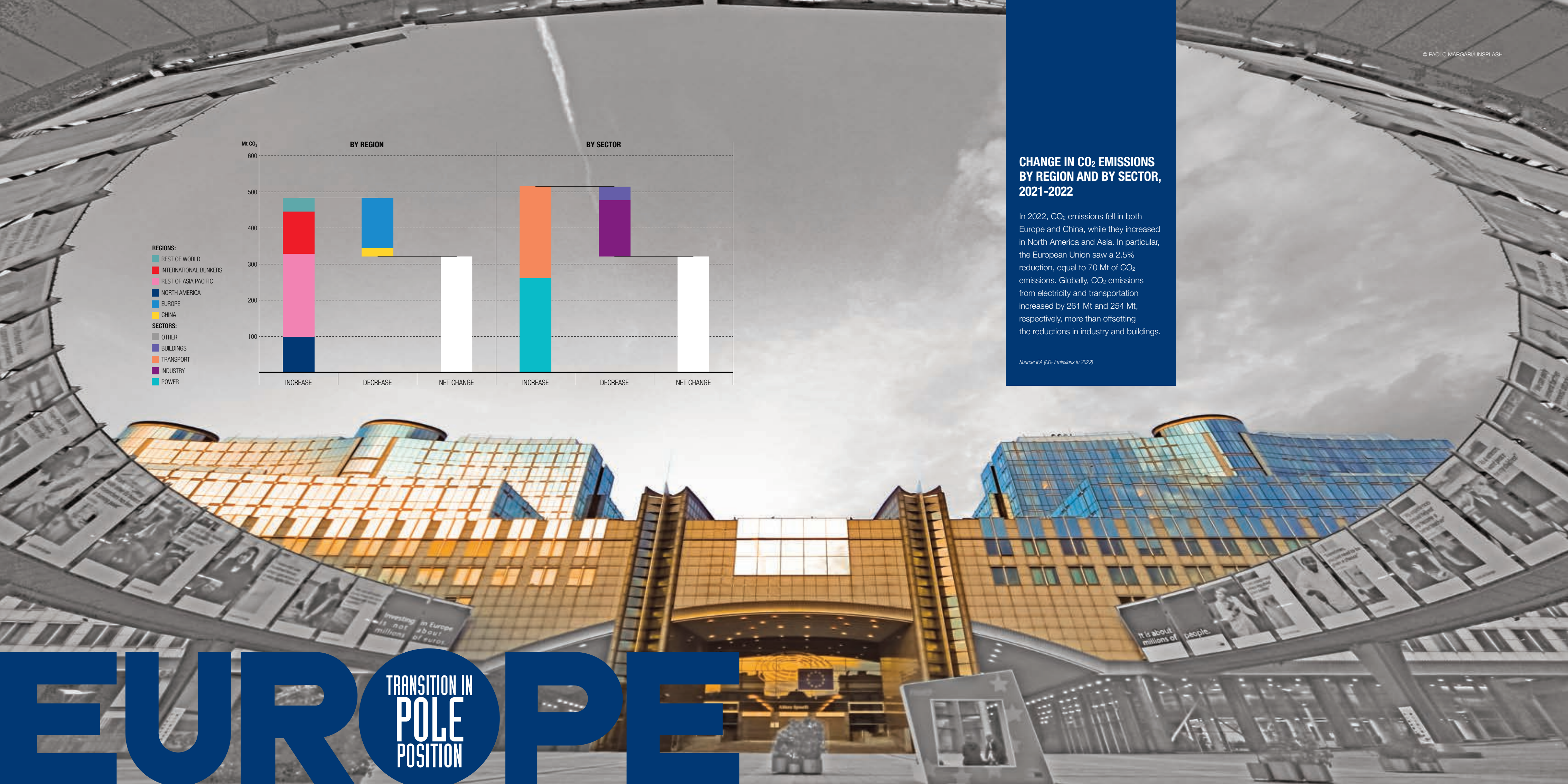
### CHANGE IN CO<sub>2</sub> EMISSIONS BY REGION AND BY SECTOR, 2021-2022

In 2022, CO<sub>2</sub> emissions fell in both Europe and China, while they increased in North America and Asia. In particular, the European Union saw a 2.5% reduction, equal to 70 Mt of CO<sub>2</sub> emissions. Globally, CO<sub>2</sub> emissions from electricity and transportation increased by 261 Mt and 254 Mt, respectively, more than offsetting the reductions in industry and buildings.

Source: IEA (CO<sub>2</sub> Emissions in 2022)

# EUROPE

TRANSITION IN POLE POSITION





# THE VIRTUE of NECESSITY

by Pier Paolo Raimondi

2023 WILL BE DECISIVE FOR ACCELERATING THE ENERGY TRANSITION IN THE RUN-UP TO EUROPE'S 2030 INTERIM TARGETS. THIS COMMITMENT, REINFORCED BY THE REPowerEU PLAN IN RESPONSE TO THE WAR IN UKRAINE, WILL HAVE TO OVERCOME THE DIFFERENT POLITICAL VISIONS OF MEMBER STATES



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**F**OR THE EUROPEAN UNION, 2022 was dominated by the need to respond to an energy security emergency and record energy prices. For its part, 2023 will be a crucial year for the numerous legislative actions intended to overcome the energy crisis and accelerate the energy transition. European in-trays are piled high with papers on energy and climate policy, dealing with everything from transition and electricity market reform to the extension of the Emissions Trading System, energy security, and industrial competitiveness. The main challenge for the Member States will be to move forward a number of dossiers quickly, yielding a clear regulatory framework to attract the massive investments needed to decarbonize the economy. The goal could not be more ambitious, especially if we factor in an ongoing energy crisis that coincides with the last year for the current European Parliament and Commission. The risk is that, in the run-up to the next European elections, the energy crisis could distract decision-makers from crucial legislative steps on the energy and climate front.

## MEASURES TO TACKLE THE NATURAL GAS CRISIS

Over the past year, the Commission and member countries have approved a number of measures to cope with shortages in natural gas. In 2022, the EU formally adopted some important tools for this purpose such as joint gas purchasing, the solidarity mechanism, and the Market Correction Mechanism. Agreement on these instruments, in particular the Market Correction Mechanism, came after lengthy negotiations, as Member States started out with widely differing positions, which threatened the return of the old split between the countries of Northern and Southern Europe. Yet the Council eventually approved all these mechanisms, including the contentious Market Correction Mechanism, and they formally took effect on February 15th this year. Joint gas purchasing, which aims to guarantee storage is filled for the winter of 2023-24, is expected to come into operation in the summer. This mechanism is not without difficulties, both in terms of the volumes it should manage (around 13.5 billion cubic meters, out of a total of some 400 bcm in annual consumption in Europe) and because of the re-



luctance of the Member States to voluntarily surrender the purchase of gas.

The gas crisis has opened up another decisive front for the energy transition in Europe: electricity market reform, prompted by the many distorting effects of the gas crisis on the market and on electricity prices in Europe. The newly agreed electricity market framework holds out many benefits both for consumers and for the growth of renewables, guaranteeing a return on investment. However, since the price of electricity is coupled to the price of the marginal fuel (usually natural gas), consumers have seen their bills rise in tandem with gas prices, forcing governments to spend over EUR 600 billion in 2022 to alleviate resulting economic hardships.

This is why the Commission and many member states have requested a review of the electricity market, emphasizing the decoupling of the price of electricity produced from gas from that produced from other sources, to avoid a repeat of the cost spikes recorded in the winter of 2021-22. The proposal to be presented by the Commission, following the close of public consultations in mid-February, will aim to increase the use of Contracts for Difference (CfDs) and Power Purchase Agreements (PPAs) to shield consumers from short-term price volatility. Although many countries have joined in and supported the drive for reform, others, Germany in particular, have expressed a certain skepticism, calling for more caution, especially ahead of the European elections. For this reason, the reform of the electricity market seems to be the most complicated dossier to complete before the end of the legislature.

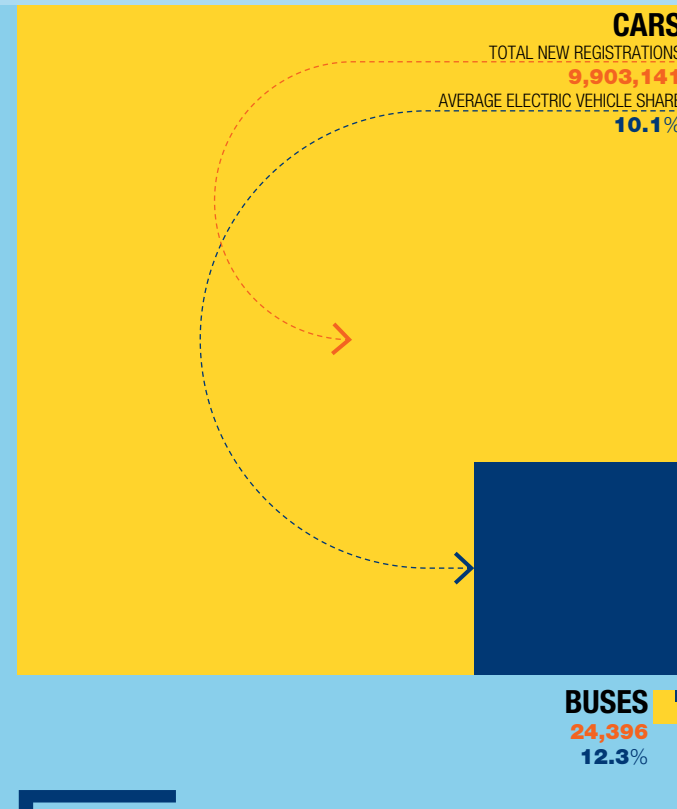
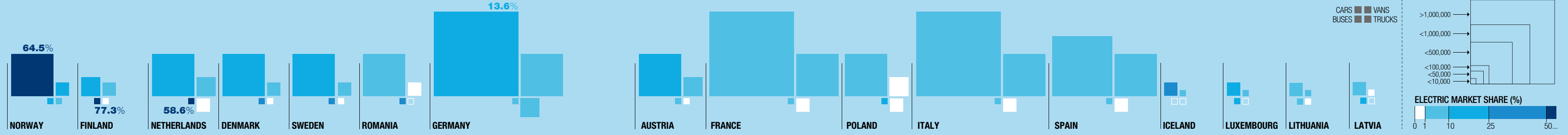
#### RENEWABLES AND HYDROGEN: TARGETS AND DEBATES

Electricity market reform should also encourage increased renewable generation within the European system. Back in July 2021, the Commission's "Fit for 55" package proposed the upwards revision of the 2030 targets for renewables from at least 32 to 40 percent of final consumption. The REPowerEU plan proposes a target increase to 45 percent, a level that could help to reduce the demand for (and imports of) gas. However, debate between the Commission and the Council is ongoing.

One of the most heated debates concerns hydrogen, the definition of green hydrogen, and, in particular, whether hydrogen produced from nuclear power should be considered renewable or not. The role of nuclear power within the European energy system – including in relation to the production of hydrogen – is a vexed one, with countries such as France promoting a greater role for nuclear. The numerous issues on the role of gas and hydrogen will also be addressed within the Hydrogen and Decarbonised Gas Package, which foresees the growth of the market for decarbonized gases, their consumption and creating a regulatory framework for related infrastructure.

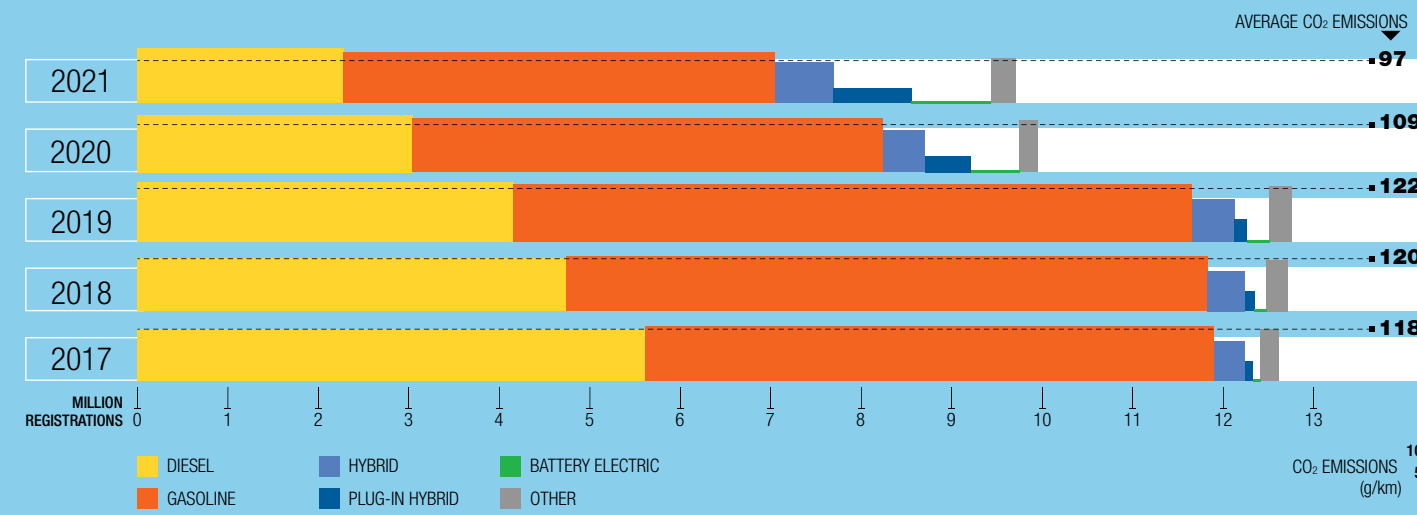
Hydrogen can certainly contribute to decarbonization and European energy security. In order to support the development of

#### 2021 EUROPEAN NEW VEHICLE REGISTRATIONS



In 2021, just one in ten passenger cars in Europe was fully electric. As a percentage, the proportion of new electric buses was higher than that of new electric cars. The van market and truck market are particular laggards in electrification. Country by country, Norway has the highest proportion of electric passenger cars and Finland comes out top for buses.

Source: European Vehicle Market Statistics Pocketbook 2022/23



#### FUEL CONSUMPTION & CO2

The number of new diesel cars has dropped sharply, from 5.6 million in 2017 to 2.2 million in 2021. But the number of new petrol cars also decreased, from 6.2 million to 4.8 million. Conversely, battery electric cars increased from 0.1 million in 2017 to 0.9 million in 2021. In total, however, the number of new car registrations in Europe in 2021 was around 20% lower than in 2017, largely due to Brexit. Average CO2 emissions decreased from 118 g/km in 2017 to 97 g/km in 2021, according to the NEDC measurement procedure adopted by the European Union.

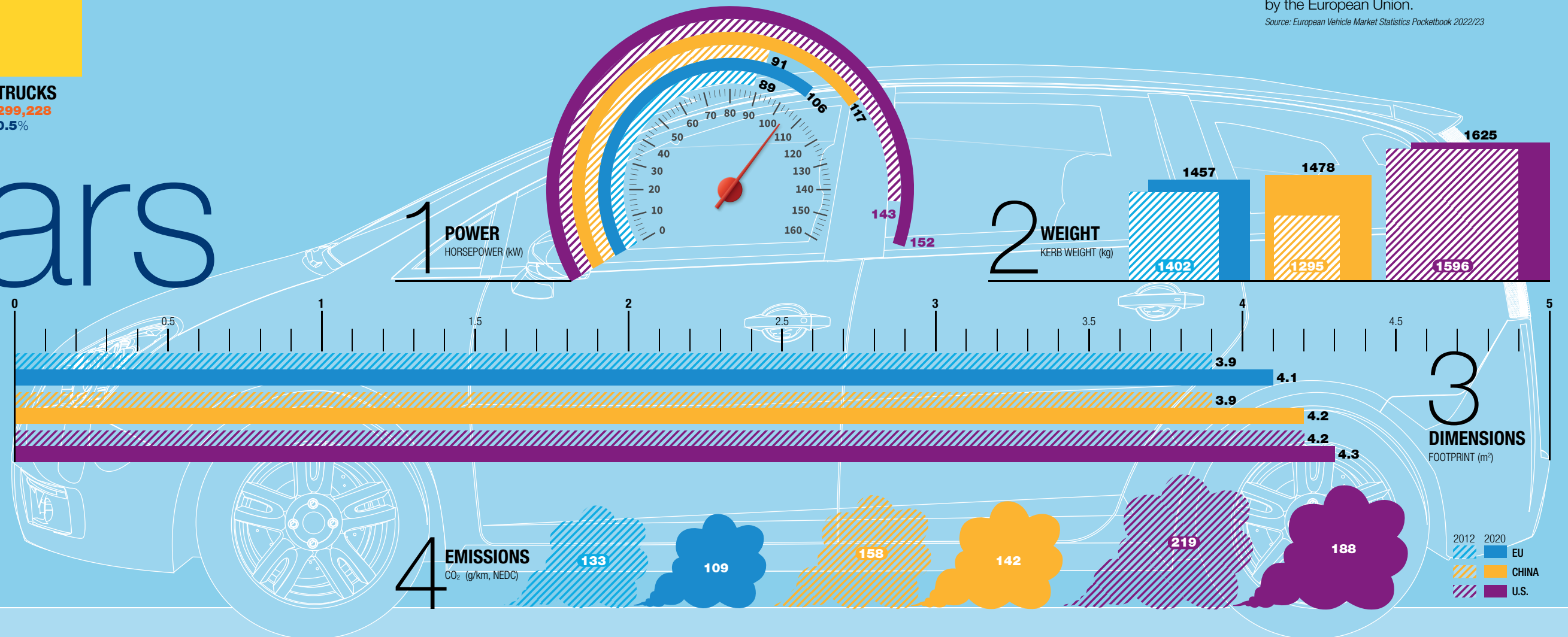
Source: European Vehicle Market Statistics Pocketbook 2022/23

# Eurocars

#### 4 TECHNOLOGIES & KEY PARAMETERS

Between 2012 and 2020, China's new car fleet significantly increased in weight, size, and horsepower. The average new car in China is now heavier, larger, and has a more powerful engine than its European counterpart, but still lighter, less powerful, and slightly smaller than the average new car in the United States. CO2 emissions for new cars in Europe fell by around 20% while the decrease was only around 15% in the United States and 10% in China. The average new car in the U.S. emits around 70% more CO2 than in Europe, while in China it is around 30% more.

Source: European Vehicle Market Statistics Pocketbook 2022/23





a hydrogen economy, President von der Leyen announced in September 2022 the creation of a Hydrogen Bank, which should be presented as a Commission proposal in May 2023. The Bank would guarantee EUR 3 billion to support the development of hydrogen on a large scale and to reach the 2030 targets set by REPowerEU, i.e. 10 million Mt of domestic production and 10 Mt of green hydrogen imports.

Another crucial aspect of the energy transition and energy security is energy efficiency. The Commission's 'Fit for 55' package proposed an increase in the energy efficiency target from 32.5 to 36 percent for primary and final energy consumption by 2030 (relative to energy consumption forecasts for 2030). In addition, in May 2022 the Commission proposed an increase in binding energy efficiency targets at the European level from 9 to 13 percent. That implies boosting the reduction targets for primary and final energy consumption to at least 41 and 30 percent, respectively, by 2030, relative to the 2007 baseline projections.

Renewables and energy efficiency have become even more decisive pieces of the energy puzzle following the outbreak of war in Ukraine and the unprecedented rise in energy prices. In this context, renewables and efficiency aren't just about the energy transition but also key to ensuring energy security. Much room for improvement remains in buildings, which are responsible for around 40 percent of European energy consumption and 36 percent of emissions. The Energy Performance of Buildings Directive seeks to address the fact that around 35 percent of European buildings were built more than 50 years ago and 75 percent remain inefficient. The resulting waste undermines the objectives of the Green Deal. Yet the Buildings Directive – which aims to renovate the most energy inefficient buildings – has been strongly criticized by some states, first and foremost Italy.

### CARBON PRICING AND DECARBONIZATION OF TRANSPORT

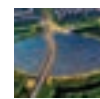
The Union is also working on another central aspect of Europe's climate ambition, carbon pricing, both within and beyond Europe's borders. At the end of 2022, the Council and the Parliament reached a provisional political agreement on the reform of the Emission Trading System (ETS) and the introduction of the Carbon Border Adjustment Mechanism

(CBAM). These tools are expected to be formally adopted by both institutions in 2023. Together, the mechanisms embody both Europe's ambition to accelerate the energy transition within its borders and to strengthen its climate leadership, encouraging actions by other actors. The ETS reform will include a price on emissions from the transport and buildings sector from 2027.

What's more, the transport sector is at the center of several legislative initiatives to accelerate decarbonization. The sector accounts for 25 percent of EU emissions and is the only industry that has seen emissions continue to increase in recent decades. In early 2023, Parliament banned the sale of new internal combustion engine cars starting in 2035. The Commission is also working on new CO<sub>2</sub> emission standards for heavy vehicles. Critics fear these could prove regressive and lead to job losses in the European car industry. To support electric vehicle-adoption, governments need to extend and strengthen charging infrastructure and work on the Alternative Fuels Infrastructure Regulation which is under discussion in Parliament and the Council. The two institutions must also agree on regulations to accelerate the transition in the maritime sector (REFuelEU Maritime) and in the aviation industry (REFuelEU Aviation). To date, the two regulations offer contrasting approaches. Unlike REFuel EU Aviation, REFuelEU Maritime does not specify

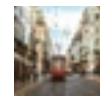


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Europe's electricity market reform should encourage the growth of renewables within the system.

Photo: Unique island-shaped solar plant Zoneiland, in Almere, the Netherlands, which partially powers the district heating network, making it highly sustainable.



The EU is pursuing several legislative initiatives to decarbonize the transportation sector. Among these is the ETS reform, which plans to set a price on emissions starting in 2027. The transportation sector accounts for 25 percent of European emissions and is the only one whose emissions have increased in recent decades.

Photo: Cable car in Lisbon, Portugal.



One of the sectors where energy efficiency can yield the best results is certainly construction; around 40 percent of European energy consumption comes from buildings as well as 36 percent of emissions.

Photo: Berlin.



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the fuels to be used, setting instead progressively more stringent limits on carbon intensity. However, this method is opposed by those who fear that such neutral approach could ensure an ongoing space for fossil fuels, slowing down the transition.

### GUARANTEEING ENERGY SECURITY FIRST

As Europe's climate ambition grows, the energy security dimension must not be neglected, as it was until 2022. Energy security involves both the supply of critical minerals —the backbone of green technologies— and the industrial capacity to develop green technologies and key segments of the value chains. This is why, in March, the Commission will propose a Net-Zero Industry Act, which is set to identify industrial objectives and provide a clear regulatory framework for rapid development. This proposal will be accompanied by the Critical Raw Materials Act, which will focus on the need to secure supplies of critical minerals for Europe.

For all these reasons, 2023 will be a decisive year for accelerating Europe's energy transition ahead of the 2030 interim targets. This commitment, reinforced by the REPowerEU plan in response to the war in Ukraine, will have to integrate the different political visions of member states on a whole range of policy questions, maintaining a balance between energy security, competitive prices and sustainability.

**we**

### PIER PAOLO RAIMONDI

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# CYPRUS

A KEY ROLE IN THE MEDITERRANEAN



## THE CYPRUS ISSUE

Cyprus has been divided since 1974, when Turkey invaded the north of the island in response to a military coup supported by the Greek government. The northern part of Cyprus is run by a Turkish Cypriot government and the southern two-thirds by the internationally recognized government led by Greek Cypriots. U.N. troops patrol the "Green Line" dividing the two communities.





PRESIDENTIAL ELECTIONS WILL NOT REVIVE PEACE TALKS BETWEEN THE ISLAND'S GREEK AND TURKISH COMMUNITIES.

# The IMPACT of VOTE

by Ahmet Sözen

AN EXTERNAL MEDIATOR IS NEEDED TO REACH A SETTLEMENT TO THE DISPUTES THAT WOULD ALSO TAKE ADVANTAGE OF THE ENERGY POTENTIAL OF THE EASTERN MEDITERRANEAN



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2022 WAS A PARTICULARLY COMPLEX YEAR; 2023 will be no better. The Russian invasion of Ukraine, the ensuing energy crisis, the food crisis and a looming global recession are the apparent threats in the COVID-recovered 2023. Tectonic geopolitical power shifts are afoot: the decline of United States relative to China will have repercussions for all regions of the world, including the Eastern Mediterranean. The outlook is bleak. But I hope, nonetheless, to sketch a policy course to turn the hopeless case of Cyprus into an opportunity to solve some other disputes in the wider Eastern Mediterranean.

## ELECTION SEASON – CYPRUS, TURKEY, AND GREECE

The presidential election in Cyprus in February this year is but the first in a series. Turkey is meant to hold elections no later than June 18th and Greece will have elections in the summer of 2023. During election seasons, contenders often ramp up nationalistic rhetoric not conducive to solving foreign policy issues in mutual concessions with external actors. In that sense, it was not a surprise that the leaders in Turkey and Greece resorted to explosive rhetoric against one another, temporarily heightening tensions until the earthquake that hit Turkey on 6 February led to a cooling of the rhetoric. However, the post-election season – if properly planned – can bring new opportunities for cooperation and solving outstanding issues.

## CYPRUS: A DISTANT PEACE

Nicos Christodoulides is the new president of the Republic of Cyprus, as well as the leader/chief negotiator of the Greek Cypriot community in the inter-communal peace negotiations with the Turkish Cypriot community. No actual negotiations, however, have taken place since the collapse of the Cyprus peace talks in Crans-Montana in the summer of 2017. Mr. Christodoulides actively campaigned on his role in ensuring the collapse of those peace talks. He objected to Antonio Guterres's "five minutes" framework to a solution in Cyprus, as well as to calls for current users of property to have a say on the resolution of property disputes in Cyprus. Mr. Christodoulides was supported by so-called "centrist" parties and by groups op-



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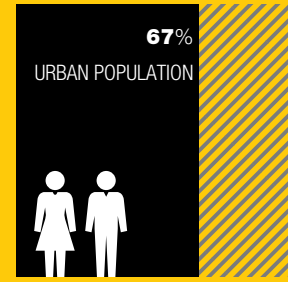
posed to the UN-supported bi-zonal, bi-communal federal solution in Cyprus, as well as the ultra-right wing party ELAM (Golden Dawn). He cannot be expected to support a bi-zonal, bi-communal federation.

On the Turkish Cypriot side we have leader Ersin Tatar, who was elected president in 2020. Tatar also rejects a bi-zonal, bi-communal federation, the formula at the heart of all Cyprus peace talks since the late 1970s. Tatar has called for the Greek Cypriot side and the UN to acknowledge the "sovereign equality and the equal status" of the Turkish Cypriot side as a precondition to talks. Simply put, his vision is for the "Turkish Republic of Northern Cyprus" (TRNC) to be recognized as a



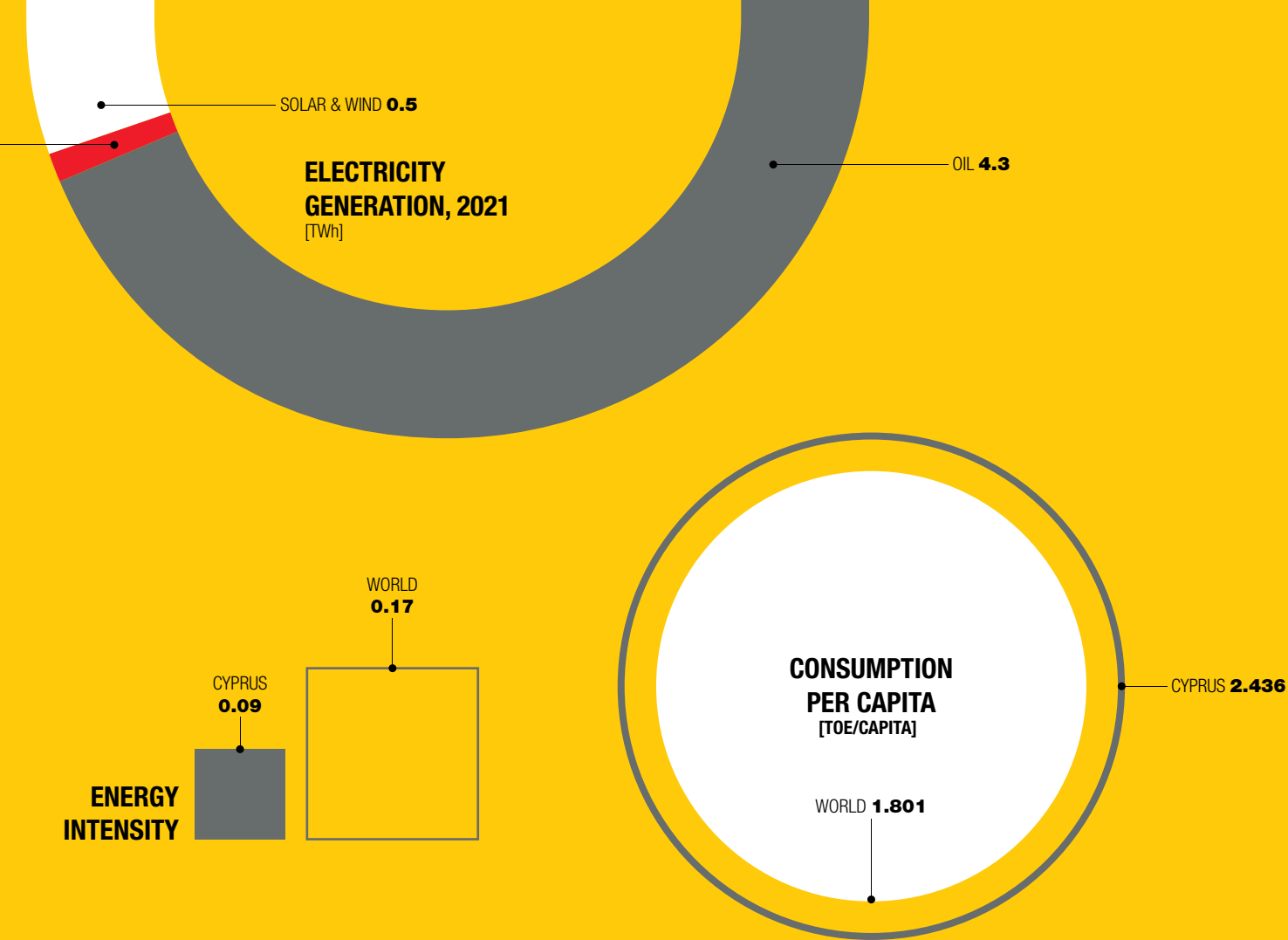
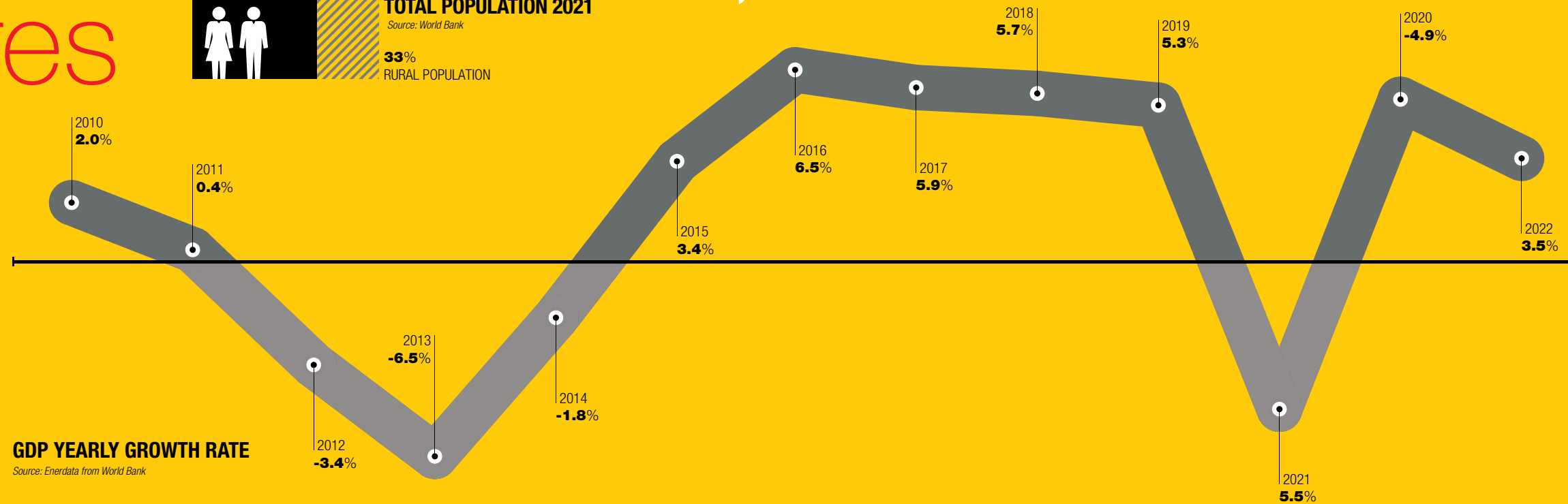
# Cyprus in figures

The Cypriot economy is highly exposed to the consequences of the war in Ukraine due to its significant trade with Russia. This new challenge comes in the context of residual effects of the pandemic as well as financial vulnerabilities dating back to the 2012-2013 crisis. Growth slowed down in 2022 compared to 2021, but is expected to regain momentum in 2023, supported by the structural investments and reforms of the Recovery and Resilience Plan.



## 1,216,000

TOTAL POPULATION 2021  
Source: World Bank



Nikos Christodoulides has been the new President of Cyprus since February 28, 2023. As a chief negotiator of the Greek Cypriot community in the inter-community peace talks with Turkish Cypriots, Christodoulides played an instrumental role in the failure of the Crans-Montana peace talks.



Currently, the internal dynamics of the Greek Cypriot and Turkish Cypriot ruling classes are in no way conducive to a formal and meaningful resumption of peace talks for an all-encompassing solution to the Cyprus question. Photo: Hala Sultan Camii mosque, Nicosia.

milestone on the road to a two-state solution in Cyprus. The dynamics on what is known as Track 1 (leaders level) are far from conducive to resuming any meaningful formal peace negotiations for a comprehensive settlement of the Cyprus problem.

### TURKEY: BETWEEN A ROCK AND A HARD PLACE

With genuinely global repercussions, Turkish elections are probably the most important in the region. Erdoğan's Turkey has some hard choices to make after the election. Over the past several years, Turkey has developed a peculiar relationship with Russia that has been described as "cooperative conflict". Meanwhile its relations with its NATO allies, particularly the U.S., have dramatically soured. Turkish purchase of the Russian S400 air defence system, expulsion from the F35 fighter jet program, and, more recently, its decision to block Finland and Sweden's NATO membership bids are just some of the intractable issues poisoning relations. Turkey finds itself wedged between its degraded links with its traditional NATO allies and, on the other side, an uneasy relationship with its historic foe, Russia. It has tried to respond by balancing the two sides. However, that effort has probably reached its limits: Turkey will need to make some hard choices in the aftermath of the elections. Following years of economic underperformance, the government has sought to boost the Turkish economy with an aggressive

monetary expansion ahead of elections. This, coupled with the devastating economic and psychological effects of the earthquake, will limit the government's room for action after the election.

### GREECE: NO CONCESSIONS UNTIL AFTER THE ELECTIONS

Greece's is the least important of the three elections in terms of its effect on Cyprus. Greece and (the Greek Cypriot-led) Republic of Cyprus have an unwritten understanding often short-handed as "Nicosia decides and Athens follows." Regardless of which government comes to power, Athens will not dramatically impact the Greek Cypriot side. Suffice it to say that the Athens government is not interested in making concessions on an important foreign policy issue during the election season, but may do so after the elections if the incentives are right.

### THE EFFECTS OF THE EARTHQUAKE

The major earthquake in southeastern Turkey set off massive economic and psychological shockwaves just ahead of upcoming elections. Although the Turkish government and its infamous propaganda machine directed by the İletişim Başkanlığı – the Directorate of Communication – tried its best to divert the anger of everyday Turks away from the incumbent government, attempts at deflection have proven ineffective. Voters

have witnessed the government's mismanagement of the crisis vividly, and first-hand.

Rescue teams and aid from more than 65 countries have cleared the extremely tense and xenophobic atmosphere that Erdoğan created for the election in Turkey. In that sense, Erdoğan is hard pressed to play the "external powers (are trying to destroy us)" card beloved of populists, and may not be able to use foreign policy issues at all as he campaigns.

### EXTERNAL FACTORS AND THE WAY FORWARD

The war in Ukraine, the energy crises, and the alignment of the West against Russia have changed geopolitical dynamics in the Eastern Mediterranean. Russian energy must be urgently replaced with alternative sources, renewing interest in the natural gas sources in the Eastern Mediterranean. To create the investment climate for them to be tapped, political tensions and disputes in the region must be tamped down. The recent Israel-Lebanon maritime delimitation deal mediated by the U.S. is a momentous example of the possibilities. It can serve as a model to help solve the Cyprus issue as well as other disputes in the region.

External pressure will be needed to transform the current, poisonous status-quo in Cyprus into a cooperative dynamic that could help pave the way for a comprehensive solution. The formula is two-fold:

1. Energy should be put into the formal negotiating agenda, with key decisions to be made jointly by the two communities. A third party, much like in the recent Israel-Lebanon settlement, should mediate the process.
2. Turkey should be integrated into the regional cooperation mechanism either as a member of the East Mediterranean Gas Forum (EMGF) or as part of an alternative, inclusive mechanism for energy cooperation.

Such a formula could help solve other regional disputes, such as the maritime boundary between Turkey and a united Cyprus, as well as positively impact the Greek-Turkish dispute in the Aegean. The biggest open question is which geopolitical power is able to invest itself in leading the effort. In my opinion, a multi-layered, multi-track design (including states and non-state actors – natural gas companies, and conflict resolution experts from the region through second track diplomacy) led by a coalition of willing states. Planning for such a push must start immediately if it is to be ready soon after the election season.

**We**

### AHMET SÖZEN

Ahmet Sözen is professor of International Relations. He is the Chair of the Department of Political Science and International Relations as well as the Founding Director of the think tank Cyprus Policy Center at Eastern Mediterranean University (Famagusta, Northern Cyprus).



## THE ELECTION GAME IS PLAYED ON THE ECONOMY

[GDP growth (%)]

According to the Turkish Statistical Institute, Turkish GDP will grow by just 0.8 percent this year. The economy, weighed down by the effects of the pandemic and the war in Ukraine and the aftermath of the February earthquake, is one of the main challenges for President Erdoğan. Even in the 2019 local elections, the recession that followed the severe financial crisis of 2008 affected the electorate's decisions, causing a major setback for the AKP with defeats in the country's two largest cities, Istanbul and Ankara.

Source: Turkish Statistical Institute



# TURKEY

CHANGE OF CONTINUITY?



# A Vote on Erdoğan

by Valeria Talbot



THE MAY ELECTION, CRUCIAL TO TURKEY'S FUTURE, LOOKS TO BE ANOTHER REFERENDUM ON THE PRESIDENT, A CHARISMATIC FIGURE WHO HAS DOMINATED AND SHAPED THE COUNTRY'S POLITICS FOR 20 YEARS

**T**HE EYES OF THE WORLD are on Turkey ahead of the presidential and parliamentary elections slated for May 14th. In the centennial year of the Republic, Turkish citizens are called on to vote in an election that seems crucial. The choice is between continuity, represented by President Recep Tayyip Erdoğan and his Justice and Development Party (AKP), in power for 20 years, and the change promised by a hodge-podge coalition of opposition parties fronted by Kemal Kılıçdaroğlu – leader of the Republican People's Party (CHP). Once again, the vote appears to be a referendum on Erdoğan, whose charisma has dominated the Turkish political scene since he was first appointed head of government in March 2003. For two decades under the AKP, Turkey has undergone major political, socio-economic, and cultural transformations, chief among them the transition in 2018 from a parliamentary government to a (super)presidential system, which effectively institutionalized the country's long-standing one-man rule.

## THE ECONOMY IS THE PROOF

In a highly polarized political environment, support for the Turkish leader has gradually worn away over the years. Erdoğan's main challenge is the economy, which has suffered not just the effects of the COVID-19 pandemic and the war in Ukraine but also, most recently, the impact of the earthquake in early February. Economic difficulties following the severe currency crisis of 2018, and the recession that followed, have a history of shifting Turkish voters' choices, including the AKP's defeat in 2019 local elections in the country's two major cities: Istanbul and Ankara. That setback stung: at the time, Erdoğan declared that losing Istanbul – the country's economic and financial hub – could mean losing all of Turkey. The economy remains the main gauge by which Turks judge the President and his party and looms ever larger in voters' minds this time. The President's approval rating has declined over the past two years as the domestic situation has worsened. According to polls, support for Erdoğan has remained well below 50 percent for the past two years, though by the end of 2022 the figure rose to 45 percent. Increased prestige on the

international scene, thanks to his mediation in the Russia-Ukraine conflict and the normalization of diplomatic relations with the wealthy Gulf monarchies that have continued to provide financial support, sustained that partial rebound.

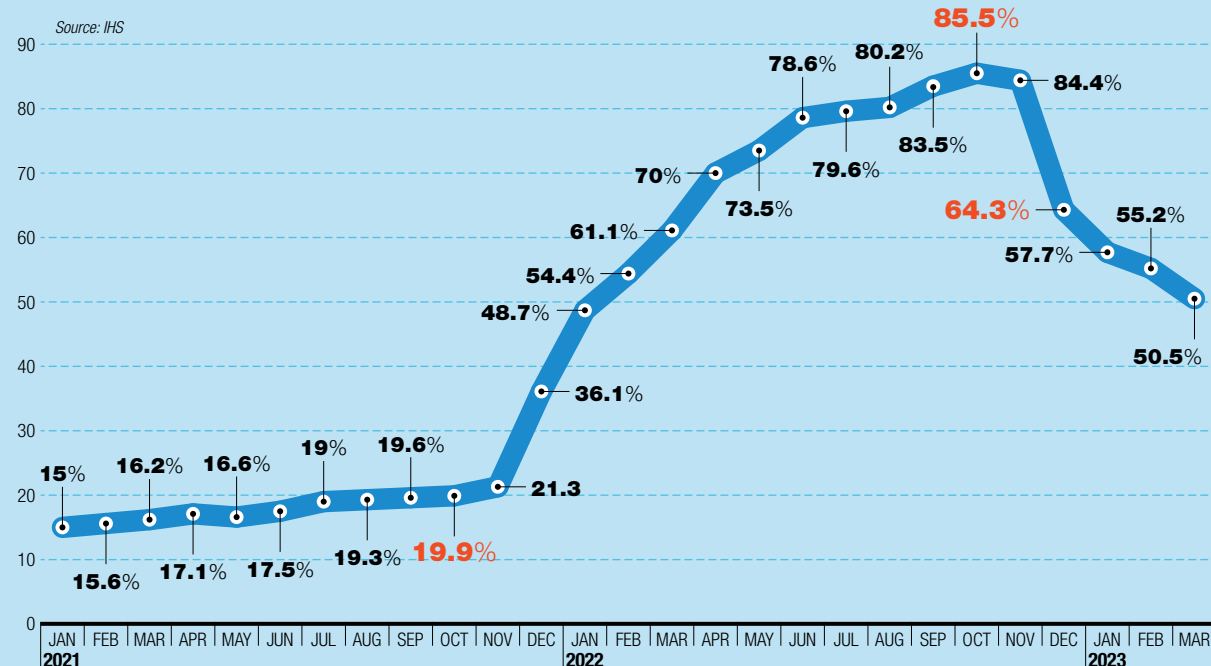
## INFLATION AND DEPRECIATION OF THE LIRA

Nonetheless, Erdoğan's fate will hinge on his economic performance. Over the past year, high inflation and the lira's depreciation have had serious domestic repercussions, with poorer and middle-class Turks losing much of their purchasing power. In 2022, the average inflation rate was 72.3 percent – peaking at 85.5 percent in October – up from 19.6 percent in 2021. However, after months of soaring prices, inflation decelerated in December to an annual rate of “just” 64.3 percent, mainly due to the drop in the price of oil imports.

Turkey's unconventional monetary policy is mainly to blame. Urged by President Erdoğan on a no-longer independent Central Bank, it relies on a novel theory that sees low interest rates as a policy tool to fight inflation by curbing the sharp decline of the Turkish lira. Starting in August 2022, the Turkish Central Bank made a series of rate cuts, down to 8.5 percent in mid-February.

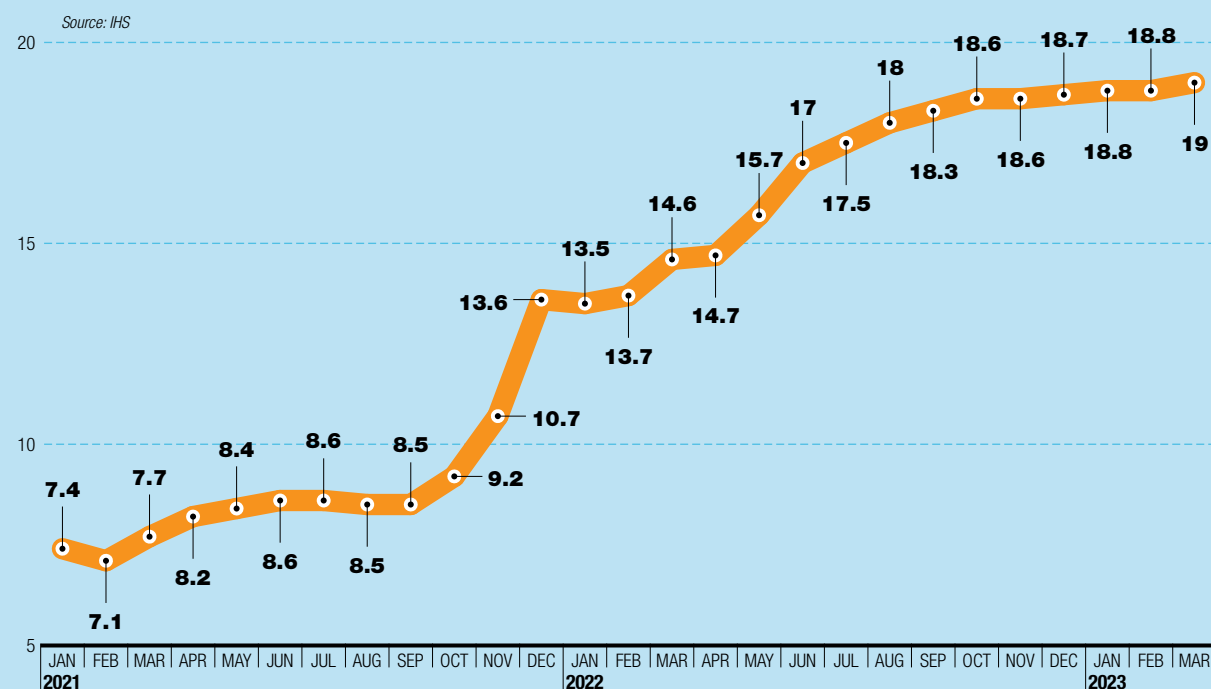
Despite a surge in inflation, the government continued to prioritize stimulating economic growth through expansionary policies. According to the Turkish Statistical Institute, the country experienced GDP growth of 5.6 percent in 2022, higher than the 5 percent forecast by the International Monetary Fund (IMF) last October but lower than the rates of the first two quarters of the year, which were 7.6 percent and 7.8 percent, respectively. The main driver of growth (especially in the first six months of 2022) was growth in consumer spending of 19.7 percent for the year as a whole, despite a slowdown in the last quarter. Government policy fed this spending boom, including through increases in the minimum wage, public sector salaries, and pensions – alongside the gradual cut in interest rates. Certainly, under such circumstances, mainstream economists would have advised the government to go in the opposite direction to counter inflation.





**A RUSH OF INFLATION** (PERCENTAGE CHANGE IN THE CONSUMER PRICE INDEX)

In 2022, the average yearly inflation rate was 72.3 percent - with a peak of 85 percent in October - up from 19.6 percent in 2021. However, after months of soaring prices, it was only in December that the annualized inflation rate fell to 64.3 percent, mainly due to lower oil prices.



**THE DEVALUATION OF THE LIRA** (MONTHLY TURKISH LIRA/DOLLAR EXCHANGE RATE)

Over the past two years, the value of the lira has fallen by more than 50 percent, causing inflation to spike, but the weakening currency has helped Turkey's exports. The interest rate cut policies and the consequent currency devaluation were strongly advocated by President Erdoğan, who aims for economic growth at any cost in the run-up to the elections.

**THE IMPACT OF THE EARTHQUAKE**

In this context, the earthquake that devastated ten southern Anatolian provinces on the Syrian border, causing the most severe humanitarian crisis in Turkey's modern history, has made a serious economic situation even worse. Although it remains to be seen what the actual impact of the earthquake will be on the Turkish economy, in a recent report, the Ankara government estimated the economic costs at 103.6 billion USD or about 9 percent of Turkish GDP.

It would not be the first time a Turkish election turned on an earthquake. The AKP first came to power —narrowly— in 2002, in the first election after a massive 1999 earthquake. Last year's quake could also give the country a strong political tremor. But the election remains challenging to predict, both because of Erdoğan's remaining appeal and also because the opposition coalition is so heterogenous that it hardly offers the electorate the reassurance it needs at a difficult time for the country. The return to a parliamentary government and staunch opposition to Erdoğan are the main items holding together a group of very different political formations, from the heirs of Kemalism to nationalists and AKP splinter groups. Turks understandably worry whether this grab-bag coalition can keep the country stable and governable. Once again, the balance could be tipped by the vote of the Kurds, who make up about 20 percent of the population and largely oppose the President. As of today, then, the contest between Erdoğan and Kılıçdaroğlu remains too close to call.

**We**

THIS ARTICLE WAS PREVIOUSLY PUBLISHED ON ISPI'S WEBSITE.

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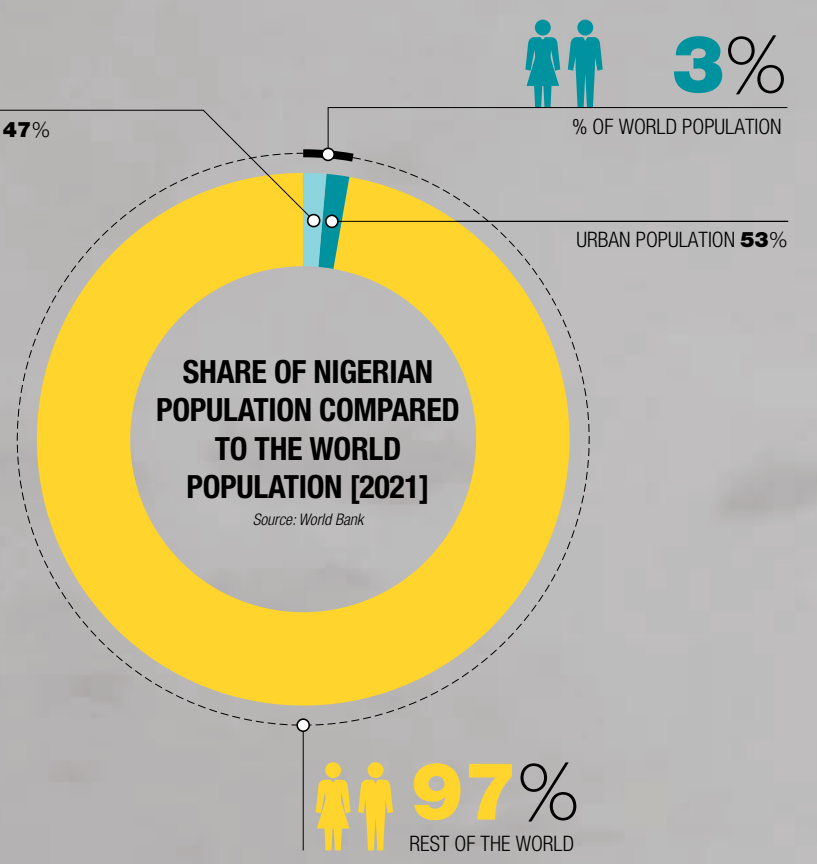
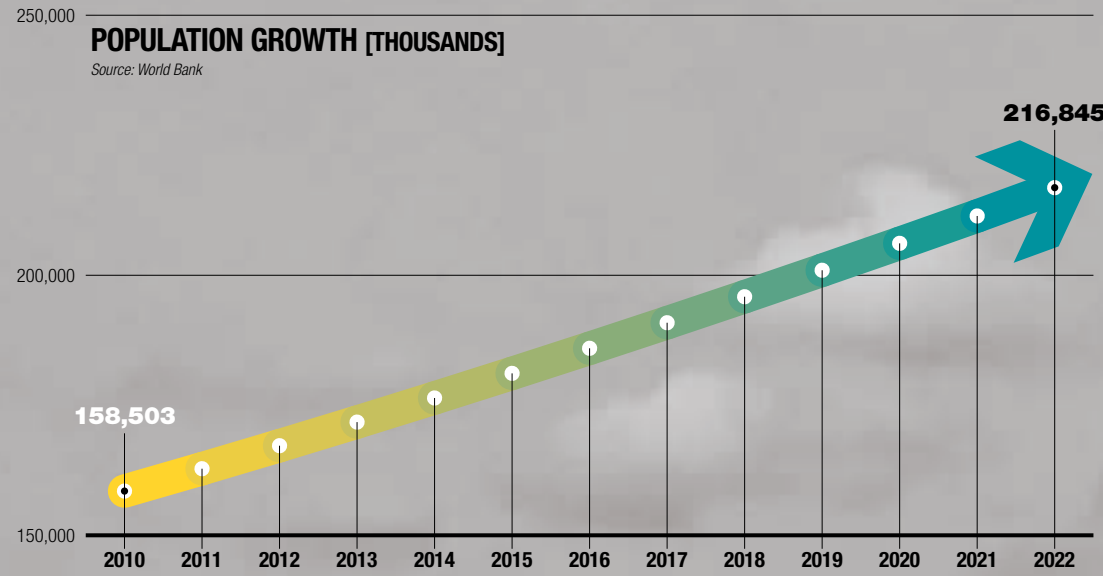


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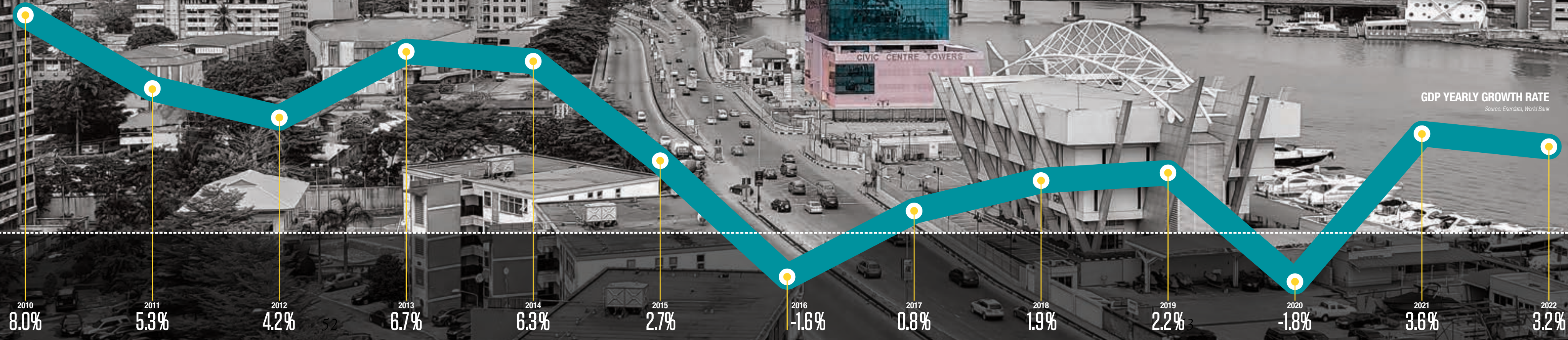
# NIGERIA

THE AFRICAN GIANT



**POPULATION EXPLOSION**

Nigeria's population is growing fast: in the past two decades it has increased by 30 percent to nearly 217 million people and, according to some projections, could be close to half a billion by 2050. The new government will need to manage the demographic challenge.





# NIGERIA'S STILL



© MUHAMMAD TAHAR IBRAHIMUNSPASH

# YOUNG DEMOCRACY

by Lorenzo Castellani

THE GOVERNMENT THAT EMERGED FROM FEBRUARY'S ELECTION WILL FACE CHALLENGES IF IT IS TO MAINTAIN STEADY ECONOMIC GROWTH, IMPROVE THE LIVING CONDITIONS OF THE PEOPLE, AND PROMOTE STABILITY IN A COUNTRY THAT REMAINS ETHNICALLY AND RELIGIOUSLY DIVIDED

**R**ECENT ELECTIONS IN NIGERIA revealed a democracy that is still too young and fragile. The Independent National Electoral Commission (INEC) announced the victory of the Progressive Party candidate, Bola Tinubu, despite heated opposition protests. Turnout was low, at only 36 percent, a sign of democratic legitimacy that still lacks a full mandate in the eyes of the Nigerian public. The new government will have to face a number of challenges to maintain steady economic growth, improve the living conditions of the people, and promote peace and stability. The presidential election has been seen as proof of the democratic resilience of Nigeria, which is now in its fifth round of elections since the end of military rule in 1999.

## A DIVIDED COUNTRY

Nigeria is a federal union of 36 states, each with its own governor and legislature, alongside a federal territory with the capital Abuja at its center. Executive power is exercised by the president, who is both head of state and head of government for a duration of four years. One of the basic political principles in the election of the Nigerian president is the alternation between two zones, that is, between candidates from the predominantly Muslim north and candidates from the mostly Christian south. The goal is to maintain a certain balance within the country, taking into consideration the two main religions and the geographical breakdown of the population. The one time this principle was not applied, between 2010 and 2011, the result was a wave of post-election political violence. This time such a tragic outcome seems to have been averted, marking a step forward in the democratization process.

The main figures in the round of elections were Bola Tinubu for the ruling All Progressives Congress (APC); former vice







© TEMITAYO AINA/UNSPLASH

Nigeria is the largest economy in Sub-Saharan Africa and the 26th largest in the world. It is also the most populous country on the continent, with nearly 217 million people who have a median age of about 18 and speak more than 500 different languages. In the photos, scenes of daily life in the city of Lagos.

president Atiku Abubakar of the People's Democratic Party (PDP); and outsider Peter Obi, former governor of Anambra state running under the Labour Party (LP) banner. On March 1st, the INEC declared Bola Tinubu the winner of the election, with 8.8 million votes, while Atiku Abubakar received 6.9 million votes, and Peter Obi of the LP received 6.1 million votes. Tinubu, former governor of Lagos state and a highly influential figure in the ruling party, represents continuity with outgoing president Muhammadu Buhari, who has reached the two-term limit set by the Nigerian Constitution. Tinubu's victory was celebrated by his supporters, while his op-

ponents disputed the election results, accusing the winning party of fraud. New investigations are underway by the INEC, which promises to shed light on and punish "election crimes." But this is unlikely to lead to a review of the results. In any case, many problems remain unresolved.

#### **BUILDING A NATION**

Africa's largest country, ethnically and religiously divided, plagued by tensions and areas where terrorism erodes institutional stability, is home to a political scene so diverse that not

even the federal organization of the Nigerian state can capture it. The relationship between state, nation and people remains vexed. Nation building — that is, getting the entire population to accept the legitimacy, existence, meaning, and rules of political institutions, and to recognize itself in shared symbols—remains far from complete.

In 1914, the British under Lord Lugard merged the northern and southern protectorates with Lagos, leading to the emergence of Nigeria as a political entity. This merger brought together a number of distinct ethnic groups and cultures that had previously operated as separate entities. British administrators failed to give serious thought to the diverse, multiethnic and heterogeneous nature of the Nigerian state. Events since the agreement have greatly affected the level of integration and cohesion among people belonging to the various ethnic groups. With the introduction of Richard's 1946 Constitution, political participation in Nigeria was regionalized and three political parties — the National Council of Nigerian Citizens (NCNC), the Action Group (AG) and the Northern Peoples Congress (NPC), came to dominate the politics of their regions. These parties, alongside other minor ones, participated in the 1959 general elections choosing the leadership of the First Nigerian Republic. Post-independence politics in the country has been characterized by inter-ethnic competition, low trust, religious frictions and clashes of individual personalities, alongside neopatrimonialism, corruption and cronyism, to the detriment of state consolidation and national development.

After independence on October 1, 1960, the new nation failed to solve its problems of ethnic and political fractionalization or create institutional stability, leading in short order to the first military coup d'état on January 15, 1966. The coup took the lives of the then prime minister, Sir Abubakar T. Balewa, and several other political and military leaders. The ethnic rivals of the original military coup leaders launched a counter-coup on July 29, 1966 in retaliation. National unity was severely threatened because military leaders failed to pacify and stabilize the country. The proposed secession by the people of the eastern region, following the declaration of the Republic of Biafra headed by colonel O. Ojukwu, led to a bloody civil war, which lasted from July 1967 until January 1970.

Before democratic rule was restored in 1999, the Nigerian military had dominated the country's politics since the 1966 coup. General Babangida's transition program to civilian rule, which was supposed to shift power to the southern states, was cancelled when Abiola (the southern candidate) took a lead in the election tally. National unity and integration were seriously threatened. The damage done when the presidential election of 1993 was annulled was only patched with the advent of the Fourth Republic in 1999. Relief for the Christian-dominated south only came with the rise to power of Olusegun Obasanjo as Nigeria's second civilian president on May 29, 1999.



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Despite twenty-five years of continuous democracy in Nigeria, various political and ethnic groups have continued to protest and ethno-religious violence over the distribution of resources remains common. The leadership's failure to address such grievances has led to the emergence of radicalized militant groups throughout the country.

#### UPCOMING CHALLENGES

Nigeria's is the largest economy in Sub-Saharan Africa and the 26th in the world. Its main source of foreign exchange is the oil it exports to international markets. After the global financial crisis of 2008, however, the country adopted some reforms aimed at diversifying its economy to limit its exposure to shocks in the energy market, while trying also to maintain steady growth.

Nigeria's most notable feature is its huge and fast growing population: projections for 2050 see Nigeria's population reaching

nearly half a billion people. The previous government put in place a series of policies to manage this demographic challenge. The new executive should support the use of modern birth control, women's health programs and family planning to keep population growth under control.

The new government will face a number of internal security problems. First, there is the ongoing military campaign against Boko Haram, an Islamic militant group active since 2009 and responsible for kidnappings and attacks on civilians. Second, clashes between shepherds and farmers have increased in recent years, fueled by competition for resources such as land and water, in addition to religious and ethnic tensions. Third, Nigeria is an important hub for piracy in the Gulf of Guinea, a major security issue for the Sub-Saharan region. Fourth, corruption and bribery must be counted as security issues, because they hold back the state and nation-building.

Both investors and outside powers have every reason to want

to help Nigeria solve its security problems, but it is important that they do so by consolidating state and democratic institutions, shunning military or authoritarian "shortcuts." Under acute economic and demographic stress, local, ethnic and religious conflicts could undermine state recognition and lead instead to further deinstitutionalization and disorder. Steps to ensure legal certainty, administrative neutrality, and physical and legal security for investment, must be at the top of the agenda, along with initiatives to build administrative capacity and strengthen central institutions.

**We**

#### LORENZO CASTELLANI

Researcher at LUISS Guido Carli University, where he teaches History of Political Institutions, and columnist for the information site *List*.



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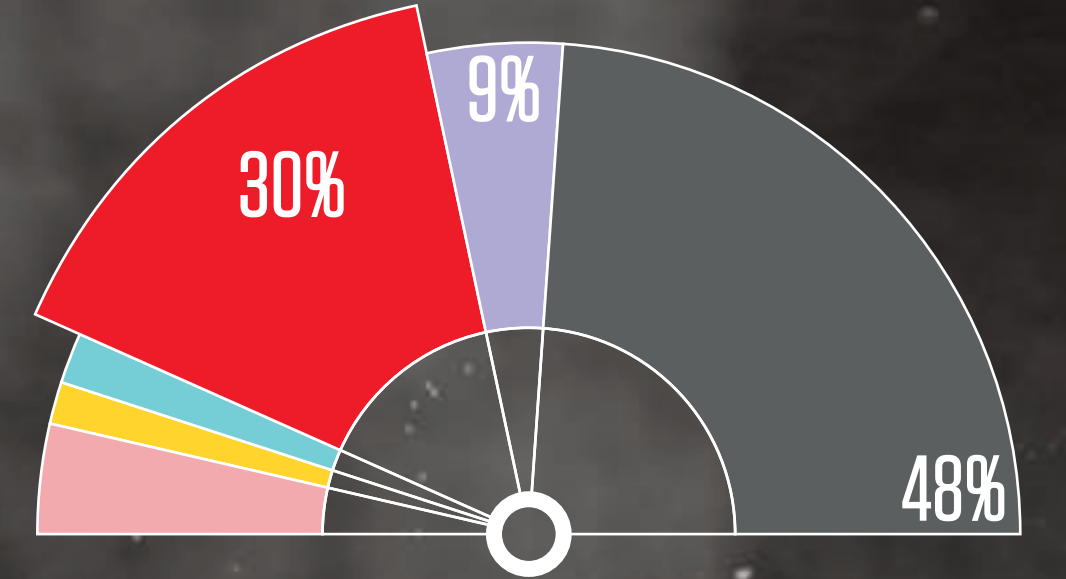




### CHINA LEADING GLOBAL GROWTH

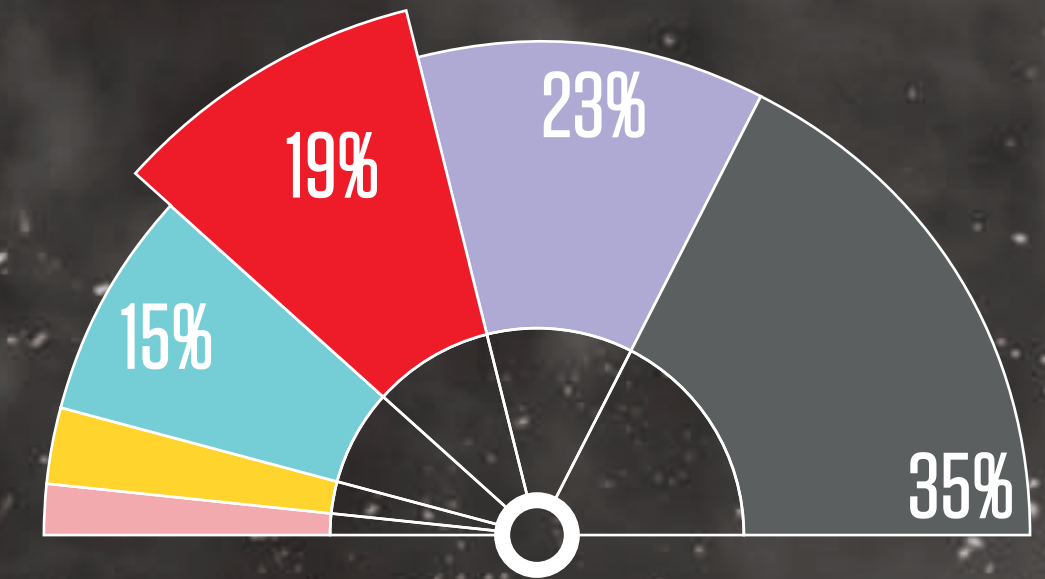
China will lead global growth in 2023. Despite the gloomy forecasts announced by the People's Republic itself, aiming for GDP-growth of "around 5%" in 2023, and despite the IMF's even lower growth forecasts of around 4.4%, China will account for 30% of aggregate global growth in the coming year, making its contribution to global growth more than three times that of the United States. Although the US remains the world's largest economy, the IMF predicts growth of just 1%, while the euro area will expand at only half that rate.

Source: IMF



SHARE OF WORLD GROWTH

- REST OF THE WORLD
- US
- CHINA
- EURO AREA
- JAPAN
- INDIA



SHARE OF WORLD GDP

# CHINA

THE POST-PANDEMIC FUTURE



# 心が土丸太 功 名 回 転 子

by Giulia Pompili

AFTER ALMOST TWO YEARS OF COVID LOCKDOWNS, CHINA HAS DECIDED TO REOPEN IN ORDER TO RETURN TO ECONOMIC GROWTH AND STABILITY. THE DECISION TO RELAX ITS ZERO-COVID POLICIES WILL HAVE SIGNIFICANT CONSEQUENCES IN TERMS OF POLITICS, ECONOMICS AND ENERGY



FOR DECADES, CHINA HAS EXPERIENCED dazzling growth. Now, as it risks decline, it is at its most dangerous. That is how one analyst at the Japanese Foreign Ministry summarizes the year ahead for the People's Republic of China. Following the failure of its coercive and repressive "Zero-COVID" policy, China's sudden reopening has been a shock, even for the Chinese people.

The re-election of Xi Jinping for a third term at the helm of the Communist Party, the Armed Forces and the nation has made him the strongest and most authoritarian leader since Mao Zedong. Since the beginning of Russia's invasion of Ukraine, Beijing has sought to capitalize on the crisis while supporting Putin at least ideologically. As the largest importer of oil in the world and the second largest importer of natural gas after the European Union, every decision China makes ripples through the energy market, and shakes the global geopolitical balance. All the while, the discord between two world orders – the liberal order, led by the U.S., and the authoritarian one, led by the Chinese – is becoming more and more evident.

### PANDEMIC MEASURES AND ECONOMIC CRISIS

In November 2022, street protests against the Zero-COVID strategy put in place by President Xi gripped a number of Chinese cities. Many suspected that the extraordinary range of Zero-COVID measures, from closing the doors for months to the outside world to draconian and sudden lockdowns, the persecution of anyone who refused swab tests and compulsory quarantine in dozens of prison-like isolation camps — amounted to a broader strategy of political control and repression, more than a public health response.

Some of the measures had had a catastrophic effect on the Chinese people, who were willing to brave the consequences of protesting against the will of the Communist Party. The protests lasted only a few days. Within a week, the government had lifted COVID restrictions completely and suddenly, ending the lockdowns in progress in several cities. It is not clear what





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led the Chinese leadership to make such a radical change in such a short time. Since its vaccination plan was far behind schedule, the two weeks following the reopenings saw a significant and dangerous surge in new infections. Some analysts argue the decision was prompted by the leadership's fear of economic slowdown more than by concerns about stemming protests.

The closures and forced quarantines had hit Chinese industrial production hard, and with it exports. Zero-COVID had cooled demand in the real estate market as well as for domestic consumption. All these factors weighed heavily on the world's second-largest economy, which grew by just 3 percent in 2022, one of the lowest rates since the mid-1970s and well below the official goal of 5.5 percent.

In 2022 China's population declined for the first time in 60 years. According to China's National Bureau of Statistics, at the end of 2022 "the national population was 1,411.75 million..., a decrease of 0.85 million from the end of 2021."

"Global inflation remains high, global economic and trade growth is losing steam, and external attempts to suppress and contain China are escalating," said then prime minister Li Ke-qiang as he set out an uncharacteristically cautious growth target of "around 5 percent" for 2023. "This year," Li added, "it is essential to prioritize economic stability."

On paper, international markets view with optimism the reopening of China after the pandemic. According to the International Monetary Fund (IMF), the Land of the Dragon could grow up to 5.2 percent, contributing to global economic stability.

**REOPENING: OPTIMISTIC MARKETS BUT THE CLIMATE IS UNCERTAIN**

The markets reacted warmly to China's reopening. According to the International Monetary Fund, this year China could grow by up to 5.2 percent, potentially contributing to global economic stability. But the climate is uncertain, marked by Beijing's authoritarianism and international political tensions. International investors and the Asian markets have shown great caution towards China recently. The uncontrolled lifting of COVID restrictions and Xi's authoritarianism on everything from finance to technology have left confidence in short supply. Beijing's diplomatic push to return to business as usual with Europe has failed, and not only due to Chinese support for Putin's war in Ukraine or due to pressure from the Biden White House to make 'friendshoring' the new normal, to slow the rise and isolate the alliance of autocracies.

China naturally continues to pursue its national interest, and it will do so especially in the coming months, now that the appointments announced during the Chinese Communist Party Congress in October 2022 have been confirmed by the Two Sessions. All key roles are now held only by men close to Xi, and the new institutional set-up will accompany the People's Republic for at least the next five years.

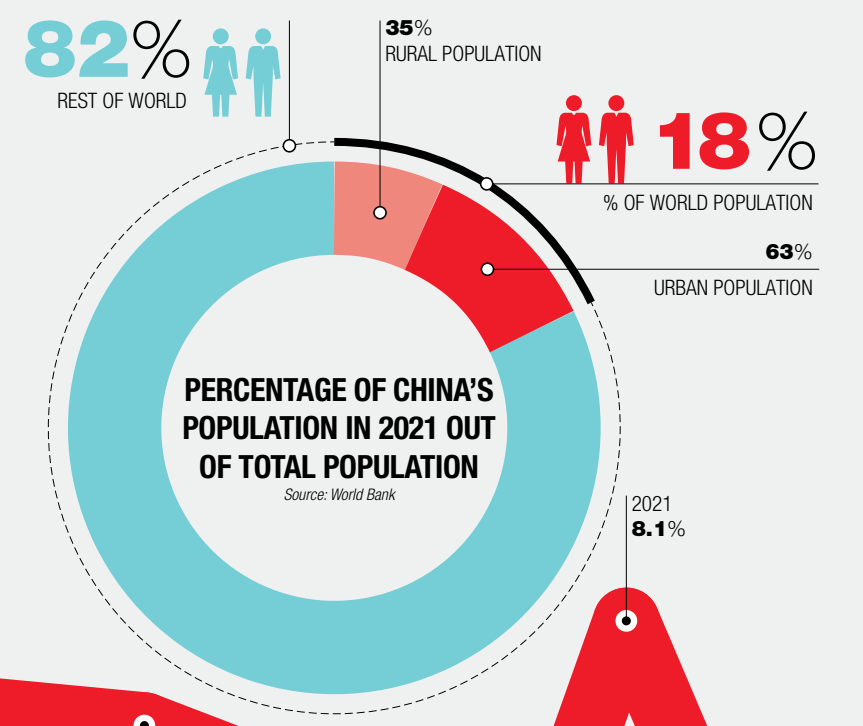
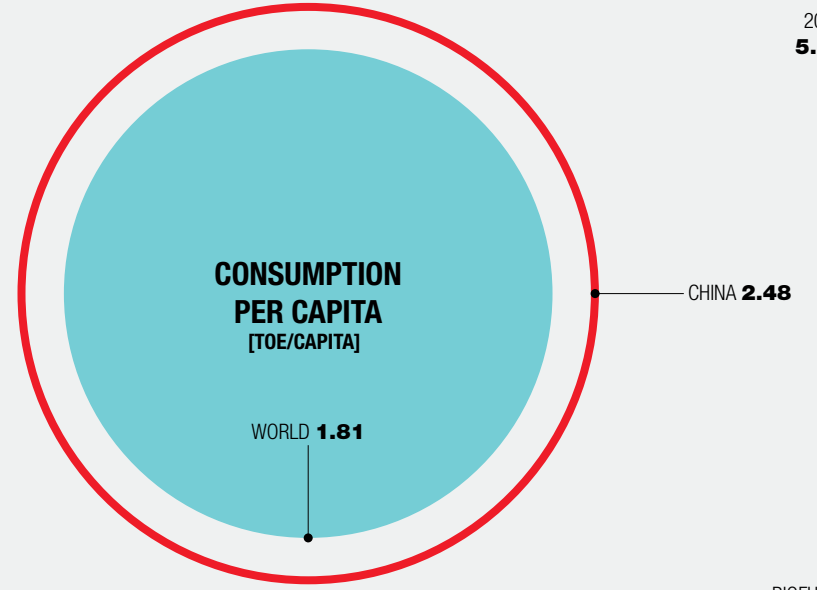
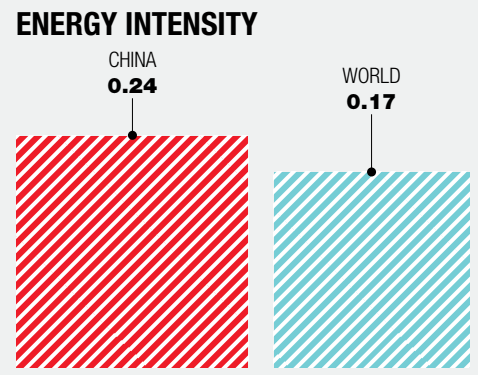
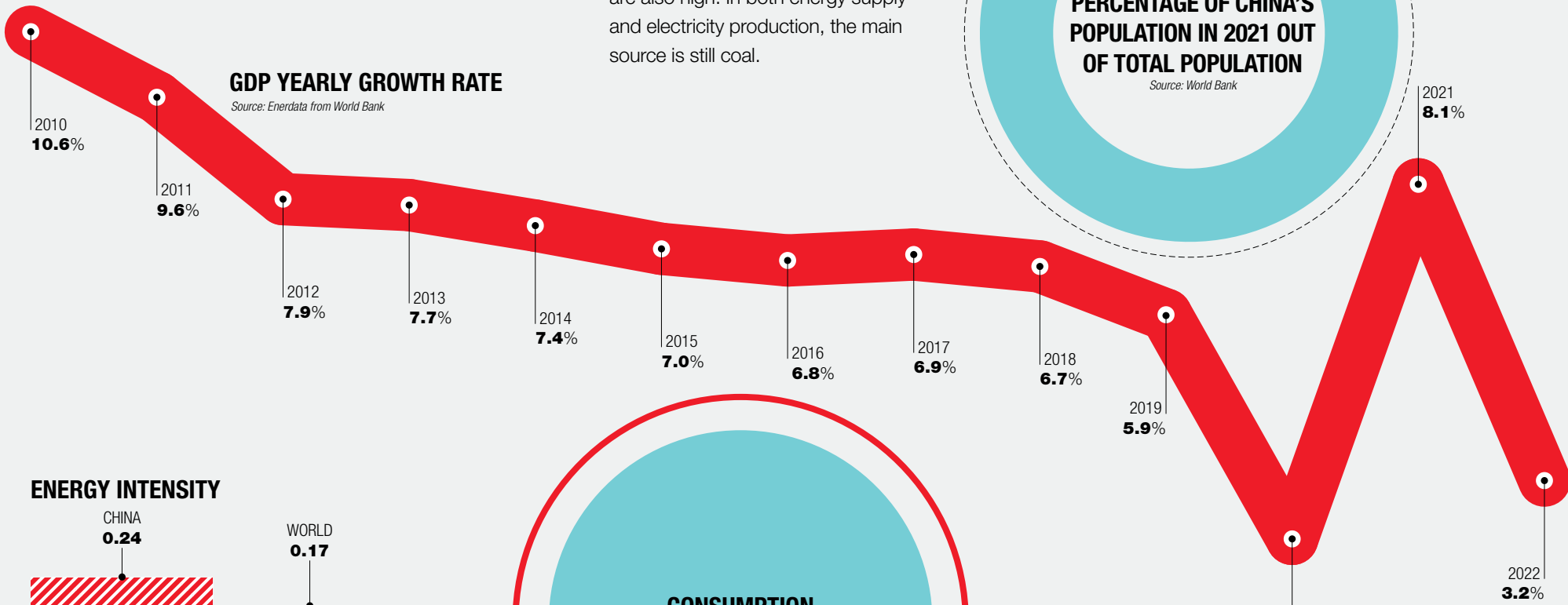
China's oil and gas consumption fell for the first time in decades last year, due to Zero-COVID. But according to the International Energy Agency, a strong recovery in demand can be expected this year, and with it a surge in prices. Chinese energy production has never kept pace with its industrial development, and China remains the world's largest importer of oil and the second largest importer of natural gas after the European Union. In the first two months of 2023, trade between China and Russia increased by 36.4 percent to CNY 232.5 billion (USD 33.59 billion). The increase in Russian exports has been primarily driven by the production of energy products including natural gas, coal, and oil to send to China.

Then there are the Gulf countries. The recent agreement between Saudi Arabia and Iran to re-establish diplomatic ties, ruptured for seven years, was brokered in China and championed by the Chinese government. In December 2022, Xi Jinping's state visit to Riyadh consolidated the relationship between the two countries – and Chinese influence in the region – especially in terms of energy. Much of the world's future now depends on what the Chinese leadership decides in the coming months.

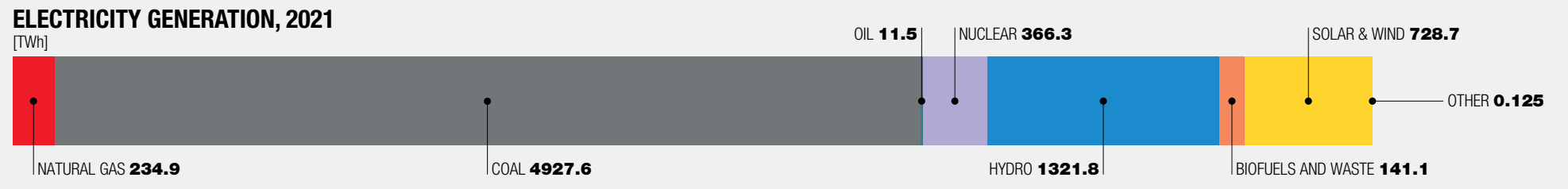
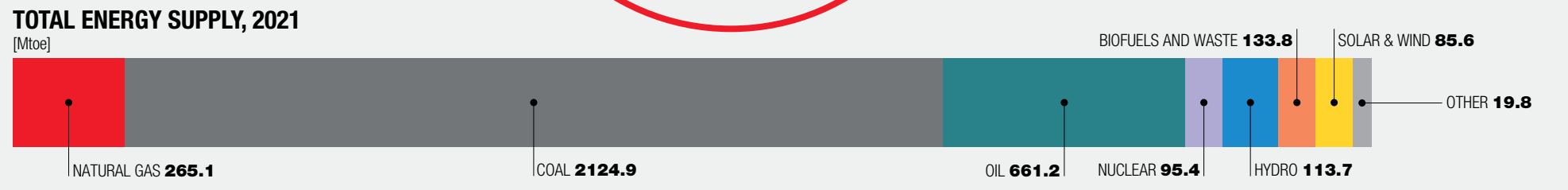
**We**

**GIULIA POMPILI**  
She has been a journalist for *Il Foglio* since 2010, where she covers mainly news from East Asia. In 2017, she started *Katane*, the first newsletter in Italian on Asian events. She is the author of the book *Sotto lo stesso cielo* (Mondadori edition).

# China in figures



China's population represents approximately 18 percent of the world's population, making it the most populous country in the world. Both per capita energy consumption and energy intensity values (an indicator, albeit approximate and aggregate, of an economy's energy efficiency) are also high. In both energy supply and electricity production, the main source is still coal.





# TENSIONS WITH TAIWAN

by Francesca Ghiretti and Helena Legarda

CHINA AIMS TO REUNIFY WITH TAIWAN, EVEN BY FORCE. THE CONFLICT IS NOT JUST BETWEEN CHINA AND TAIWAN BUT, GIVEN THE CRUCIAL ROLE TAIWAN PLAYS IN THE GLOBAL ECONOMY, ALSO INVOLVES THE EU AND THE USA, READY TO ENCIRCLE BEIJING EVEN MORE TIGHTLY FOLLOWING ITS PRO-RUSSIAN STANCE

2023 WILL BE A YEAR of tension in the Taiwan Strait. Despite the friendlier tone struck by Xi at the G20 summit in Bali in November 2022, the direction set at last year's 20th Party Congress paints a different picture of what we may expect from China this year. Beijing has a much gloomier view of the international environment than it did five years ago. Triumphant language about China "standing tall and firm in the East" and enjoying a period of strategic opportunity has given way to an emphasis on the risks and challenges it faces. And Xi Jinping's prescription to tackle these is to "struggle", amid calls for the forceful protection of China's interests overseas. Geopolitical competition with the United States remains the primary driver of China's foreign policy. Beijing is likely to maintain pressure on Taiwan in the run-up to presidential elections in January 2024, as the island steps up its engagement and cooperation with the U.S., Europe and other likeminded partners around the globe. The status quo in the Taiwan Strait is shifting and tensions are rising, making the situation increasingly unstable. Open conflict does not seem imminent, but it is no longer unthinkable. Europe must be aware of these dynamics and start preparing for what may come.

## TENSION ESCALATING

Tensions in the Taiwan Strait may have reached a high point over the last few months, but they have, in fact, been rising for years as Beijing has become more assertive both in rhetoric and in its approach to cross-Strait relations.

The Chinese leadership's ultimate goal and general strategy when it comes to Taiwan have remained unchanged for decades. The goal is to achieve "national reunification" by incorporating Taiwan into the People's Republic of China. Beijing prefers to achieve this peacefully, although it does not renounce the use of force. Ever since Xi Jinping came to power in China in 2013, however, and the relationship between Beijing and Taipei has deteriorated rapidly. Especially after the election of President Tsai Ing-wen of the Democratic Progressive Party (DPP) in Taiwan in 2016, who has been adopting a clearer stand against the unification of Taiwan with mainland China.

Since then, Beijing's tone has become still more assertive. Wang Yi's speech at this year's Munich Security Conference was a clear example of this. His assertion that "Taiwan has never been a country and it will never be a country in the future" in response to a question asking him to reassure the audience that Beijing was not planning an imminent military attack against Taiwan was further evidence of the Chinese leadership's growing intransigence on this issue.

Communication channels between Taipei and Beijing have all but collapsed as well. And military pressure on Taiwan has also increased. 2022 saw over 1,600 People's Liberation Army (PLA) aircraft entering Taiwan's air defense identification zone (ADIZ)



### THE ROOTS

Tensions between China and Taiwan began in 1945, when administration of the island was transferred from Japan to China at the end of World War II. Since then, Beijing has considered the island its national territory and vowed to annex it. Current President Xi Jinping has even set a date by which to do so: 2049, the centennial of the foundation of the People's Republic.

### THE STATUS QUO

Taiwan has been de facto independent since 1949: its official name remains "the Republic of China". Currently, only 22 countries officially recognize the country, none in Europe except for the Holy See. The others: Belize, Burkina Faso, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Kiribati, Marshall Islands, Solomon Islands, Nauru, Nicaragua, Palau, Panama, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, São Tomé and Príncipe, Swaziland, Tuvalu.

## A LONG-STANDING CONFLICT

### THE REASONS

China's ideological commitment to annexing Taiwan to complete the country's reunification is not the only source of tensions. There are other strategic and military, and economic reasons. With Taiwan under its control, China could enhance its military influence in the Pacific Ocean by obtaining total control of the area. Secondly, Taiwan is an economic powerhouse: 40% of world trade transits here, for a total annual value of almost 5.3 trillion dollars. There is also the weight of its advanced semiconductor production capacity, where the island leads the world. By contrast, the United States, after the Second World War, erected military and strategic outposts in Asia, which would lose strategic value if Taiwan were re-annexed by China.

and over 500 crossing the median line in the strait.

U.S. House Speaker Nancy Pelosi's visit to Taiwan in August 2022 marked a turning point by setting a new benchmark for China's military pressure on Taiwan. The PLA's fast, well-coordinated response involved live-fire exercises encircling Taiwan, large numbers of aircraft entering Taiwan's ADIZ and crossing the median line, and tests of conventional ballistic missiles, including the first to overfly Taiwanese airspace. Beijing also swiftly resorted to import bans and canceled multiple dialogues with the U.S. in diplomatic retaliation.

The starkest change in Beijing's approach, however, lies in the vision of what awaits Taiwan after "reunification", as outlined in the white paper on Taiwan published in August 2022. Previous offers of a looser form of 'one country, two systems' that would allow Taiwan to keep its unique system for a long period while Beijing refrained from stationing troops or administrative personnel in the island are gone. Instead, echoing the experience of Hong Kong, the new white paper merely promises that Taiwan may keep its current social system and enjoy a high degree of autonomy as a special administrative region "in accordance with the law." As in Hong Kong, this would give primacy to Beijing's policies and legislation, curtailing the freedoms Taiwan currently enjoys.

This new posture reflects both a new sense of urgency to accomplish one of the Communist Party of China's "historic missions" and new confidence in China's capabilities to do so, as well as a growing concern that the United States is building a

coalition to contain China's rise and thwart Beijing's ambitions. Counterproductively, however, the Chinese leadership's more aggressive behavior is also spurring the United States to step up its presence in the region and aligning its allies more closely with Washington. The U.S.-led coalition hopes to deter China, and failing that, to improve its position should a conflict break out. New security cooperation agreements between the U.S. and the Philippines and Japan are cases in point.

### INCREASINGLY HEATED COMPETITION BETWEEN CHINA AND THE U.S.

Beijing's position is hardening as U.S.-China competition sharpens and geopolitical dynamics in the Indo-Pacific shift. Russia's war against Ukraine, and China's response to it, have galvanized responses from the U.S., the EU and NATO, unifying NATO and moving Euro-Atlantic countries closer together with their allies and partners in the Indo-Pacific. Additionally, the lessons learned from the war have moved Taiwan up the priority lists of Western governments, which fear being caught unprepared yet again by a new conflict. Discussions about the future of cross-strait relations are unceasing in Washington and European capitals, and visits are regularly exchanged. Meanwhile, Beijing's prospects of persuading Taiwan's population to support "reunification" continue to worsen. Fewer and fewer Taiwanese people identify as Chinese (just 2.4 percent in 2022 vs 3.3 percent in 2013) or support any form of unification with the mainland (around 6.5 percent in 2022 vs some 11 percent in 2013). Offering a Hong Kong-like model after reunification will not change the trend, given the fate Hong Kong suffered. Beijing's options have narrowed to an unpalatable choice between ongoing intimidation and military action. Military action to retake Taiwan seems unlikely at present. Despite the continuous increases in its military budget, —which grew 7.2 percent this year— Beijing's remaining military limitations still stand in the way. Additionally, the Chinese leadership will consider the need to maintain stability at a time of domestic crises and a tense international environment that could lead to rapid escalation.

The PLA's rapid reaction to Speaker Pelosi's visit to Taiwan in August, however, made clear that China's political and military leadership are increasingly willing to escalate – though not all the way to war – to show their displeasure, deter similar actions in future and, above all, to reset the status quo.

Beijing's more aggressive posture could become the new normal, imperiling the stability of the Taiwan Strait. Taiwan would face new challenges to its ability to control its surrounding waters and airspace and uncertainty about China's true intentions every time similar large-scale military drills take place.

Beijing is unlikely to resort to military action according to a pre-determined timeline, but it will respond to the international environment and to other foreign and domestic factors.

As the status quo becomes increasingly unstable, U.S.-China competition deepens and prospects for peaceful reunification dim, Beijing is likely to see intimidation as the only viable option. The risk of escalation – whether accidental or intentional – is becoming all too real.

### PROFOUND IMPLICATIONS FOR EUROPE

Foreign actors should prepare for greater uncertainty in the Taiwan Strait, and a higher risk of supply chain disruptions and of economic retaliation or sanctions. The importance of Taiwan for the global economy goes well beyond the well-known role it plays in the global semiconductor supply chain, producing around 65 percent of the world's semiconductors and 90 percent of its most advanced chips. About 40 percent of global container ships pass through the Taiwan Strait; disruptions in the region would be damaging for the global economy at large, very much including Europe and Italy. A recent report by the Rhodium Group estimates that a naval blockade of Taiwan would cost the global economy three trillion U.S. dollars. This, however, is a conservative estimate that does not take into account the costs of retaliatory sanctions or other second-order impacts. Under no scenario could Europe steer clear of the impact of escalation in the Taiwan Strait.

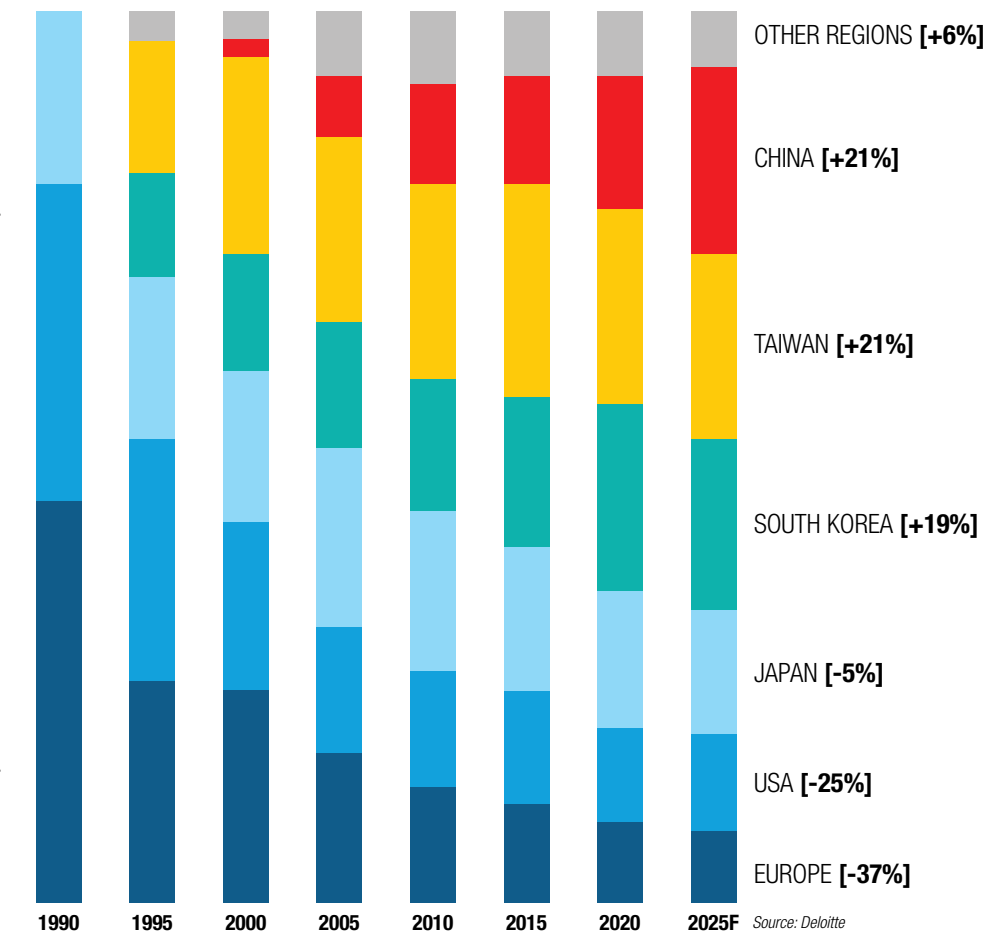
China is closely watching the response to Russia's invasion of Ukraine for clues about the likely Western response to actions against Taiwan. Based on lessons it's drawing from the West's sanctions on Russia, it is pushing for greater self-reliance and to reduce strategic dependencies that leave it vulnerable to foreign pressure. At the National People's Congress held in Beijing in March, Xi confirmed the Communist Party's commitment to achieving self-sufficiency in science and technology. With such moves coming on the heels of U.S. export controls on semiconductors, wider decoupling should surprise no one.

An escalation scenario in the Taiwan Strait may well put an end to the rules-based international system as we know it. Open conflict could lead the U.S. and China to disregard international rules and force much of the world to take sides. Europe will struggle to stay on the sidelines; it is likely to be dragged in due to commitments both to the U.S. and to like-minded partners in the region.

Next year's U.S. and Taiwanese presidential elections are on the horizon. On the U.S. side, it is difficult to foresee a dramatic change of position towards a more conciliatory stance on relations with Beijing. Whether it is a second term for President Biden, Donald Trump or another Republican candidate, support for Taiwan will remain strong, and competition with China will stay in place. There is strong bipartisan support for this approach. And in Taiwan, there are no clear mainland-friendly candidates for the presidential elections, while Lai Ching-te, the likely candidate for President Tsai's Democratic

### SEMICONDUCTORS - MAIN PRODUCERS

PERCENTAGE SHARE BY REGION - VARIATIONS IN PERCENTAGE SHARE FROM 1990 TO 2025



Taiwan has among the largest semiconductor production capacities in the world. Over the last thirty years the shares of both Europe and the United States have decreased significantly.

Progressive Party (DPP) has already signaled continuity with the position of his predecessor: Taiwan does not need to declare independence because it is already independent. This is a line that has kept Taiwan safe for many years, but its effectiveness will be put to the test like never before.

**we**

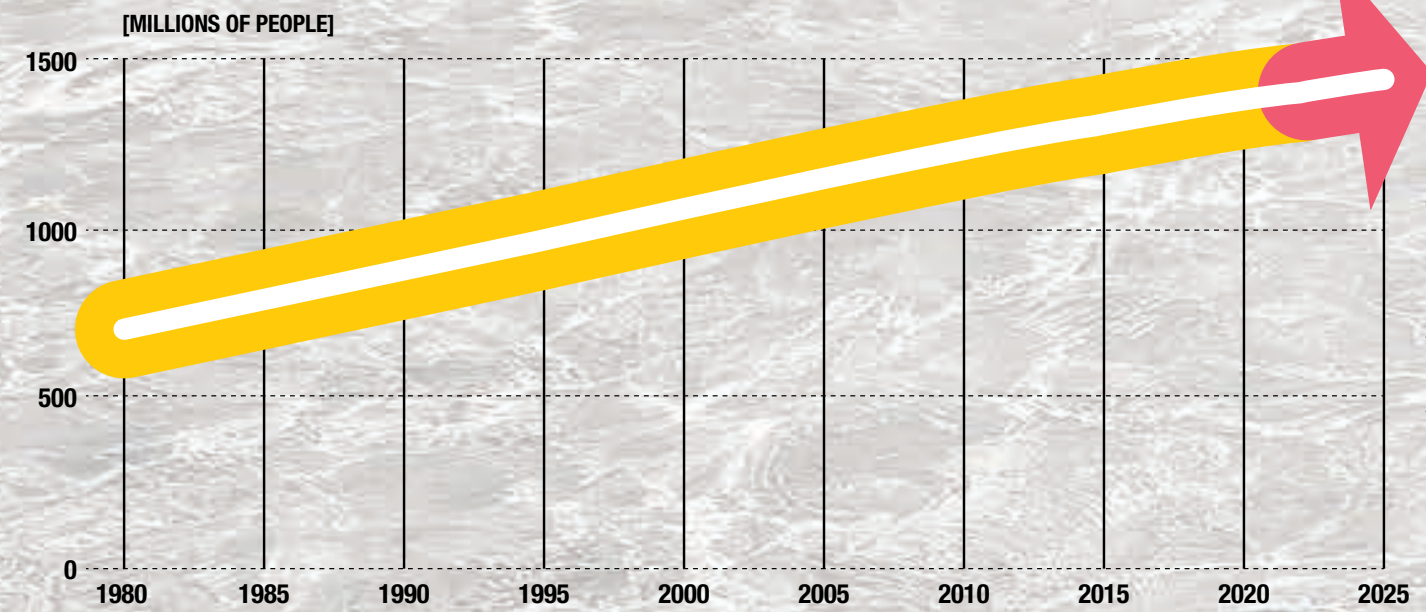
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### THE BOOM IN POPULATION...

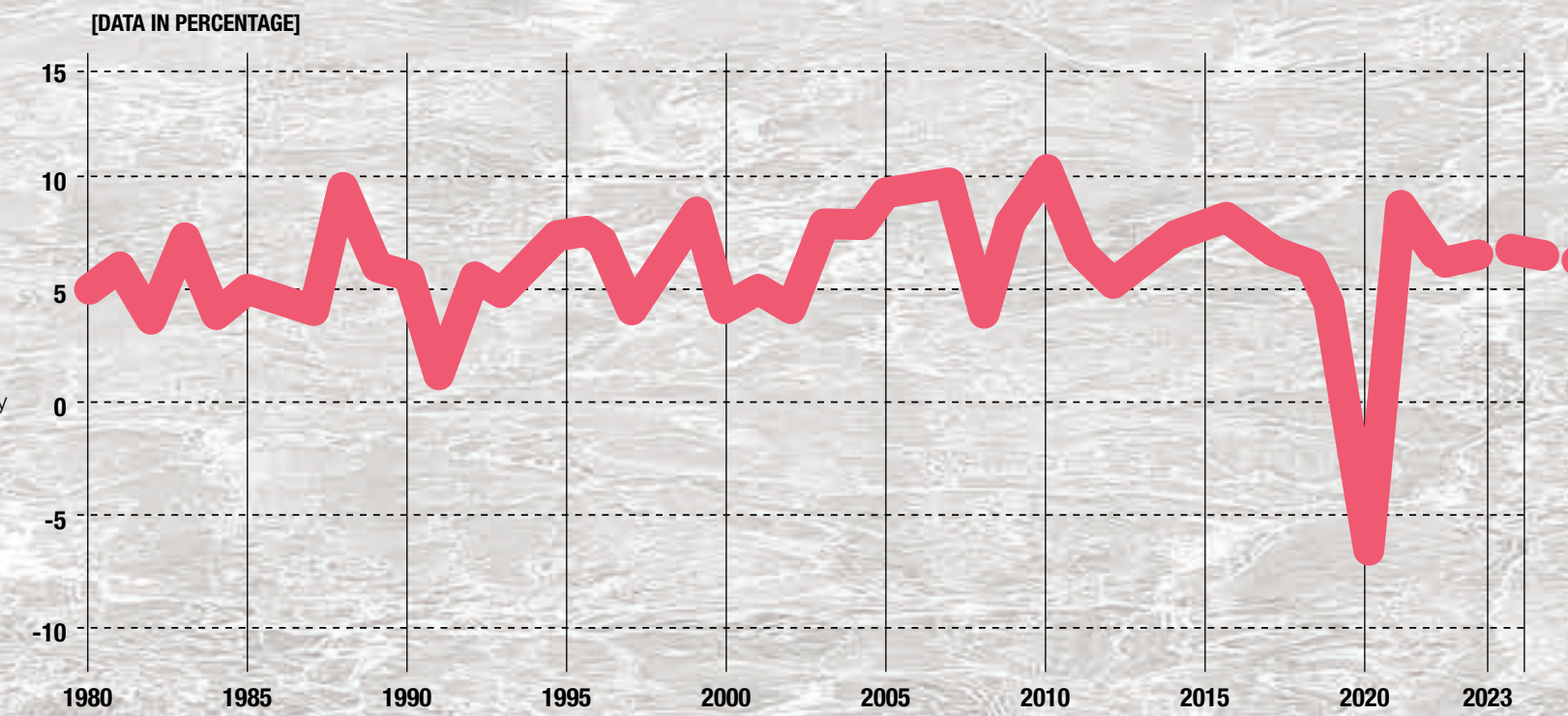
Between 1950 and 2020, the population of India increased around four-fold. This year, with its population of over 1.42 billion, India will become the world's most populous country, surpassing China.

Source: UN

### ...AND GDP

According to forecasts by the International Monetary Fund, the Indian economy will grow by 6.8 percent in 2022, much higher than the G7 economies and second only to Saudi Arabia.

Source: International Monetary Fund



**INDIA**

A LEADER IN  
**G20**





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by Harsh V Pant

AT A TIME OF CRISIS IN THE WORLD ORDER, INDIA CAN PLAY A LEADING ECONOMIC AND POLITICAL ROLE, PURSUING A NEW BALANCE THAT TAKES INTO ACCOUNT THE DEMANDS OF THE GLOBAL SOUTH

# AN UNSTOPPABLE RISE

**T**HE WORLD TODAY IS GRAPPLING with major transformations brought about by a shifting power balance, technological overreach, and institutional decay. The COVID-19 pandemic and the Ukraine conflict widened these fault lines, resulting in global inflationary pressures, food and energy crises, and widespread economic fallout. States are frantically scraping their coffers to provide for their citizens' basic needs, and we are falling behind in the quest to achieve the Sustainable Development Goals (SDGs).

To be sure, some of these fault lines long pre-date the Ukraine war and even the pandemic. The rise of China, for one, has been a persistent theme of the past two decades. But it's the failure of the international order in the recent years to respond to China's rise that has brought many of today's challenges to the fore. At the other end of the spectrum, a declining power has managed to tilt the geopolitical balance in Eurasia. Russia's aggression against Ukraine has forced Europe to reckon with geopolitics once again. The course and the conduct of the war in Ukraine is likely to reshape European threat perceptions and has given NATO a new lease on life. Globally, the Russia-China axis has been cemented and global fault lines are ever more vivid. Geopolitics is front-of-mind as trust becomes an essential factor in shaping economic decisions.

## A CREDIBLE PLAYER

But never before has India's rise looked more credible than it does today. With the world in turmoil, India stands out as a beacon of hope. Its economic trajectory gives it a distinct place in global politics today. There is a reason why the West, despite its differences with India over Ukraine, has continued to engage with New Delhi. In fact, India's ties with the West have grown significantly amid all the negative press that India has received. Where journalists remain prisoners of their short-term outlooks, policymakers in the West recognize the real story—the rise of India as a credible geopolitical and geo-economic player in the 21st century.

Even as India and the West continue to court each other, India has continued to maintain its partnership with Russia, and President Vladimir Putin uses it to show the West that, despite Western sanctions, he is not alone. He has the support of big powers like China and India. New Delhi wants to keep channels of communication open with Moscow, given their defense ties as well as the convergence of their regional security interests. But also because New Delhi is concerned to ensure that the China-Russia axis does not blossom into a permanent alliance. Much will depend on how Russia fares in its war with Ukraine, where India will have little control over the outcome. But so long as a window is open, New Delhi is likely to continue to make this effort.

China too finds itself in a bind. India's stiff resistance to its aggressive pursuits along the Line of Actual Control—the de-facto border between the two—has put paid to the Chinese Communist Party's narrative that the time of Chinese regional dominance has arrived. India's standing up to China has ignited a broad pushback across the Indo-Pacific, and beyond. And with Beijing facing a plethora of domestic challenges, there is once again a premium on internal consolidation.

## THE G-20 PRESIDENCY

Against this backdrop, the G-20 Presidency, which India will take over from Indonesia in 2023, presents New Delhi with a big opportunity to shape the agenda for global cooperation. The G-20 accounts for more than 80 percent of the global Gross Domestic Product (GDP), 75 percent of global trade, and 60 percent of world population. These underlie its importance, opening several possibilities for facilitating cooperation and tackling global issues.

This leadership opportunity could not have come at a better time for New Delhi. In September, India became the world's fifth-largest economy, displacing the United Kingdom, its former colonizer. Described by the International Monetary Fund as a "bright spot" amid a global economic slowdown, India's



economy is estimated to have grown by 6.8 percent in fiscal year 2022—much higher than the G-7 economies and second only to Saudi Arabia.

The G-20 presidency gives India a chance to shape the agenda for global cooperation as the world emerges from the shadows of the COVID-19 pandemic. New Delhi is eager to project its presidency as an opportunity to underline its emerging status as a “leading power,” as Indian External Affairs Minister S. Jaishankar has described it. Reflecting this aspiration, the theme India selected for its presidency is “vasudhaiva kutumbakam,” a Sanskrit phrase meaning “the world is one family.” In unveiling the logo and theme for the year, Indian Prime Minister Narendra Modi noted that the world is experiencing conflict, the aftereffects of a “once-in-a-century pandemic,” and economic uncertainty.

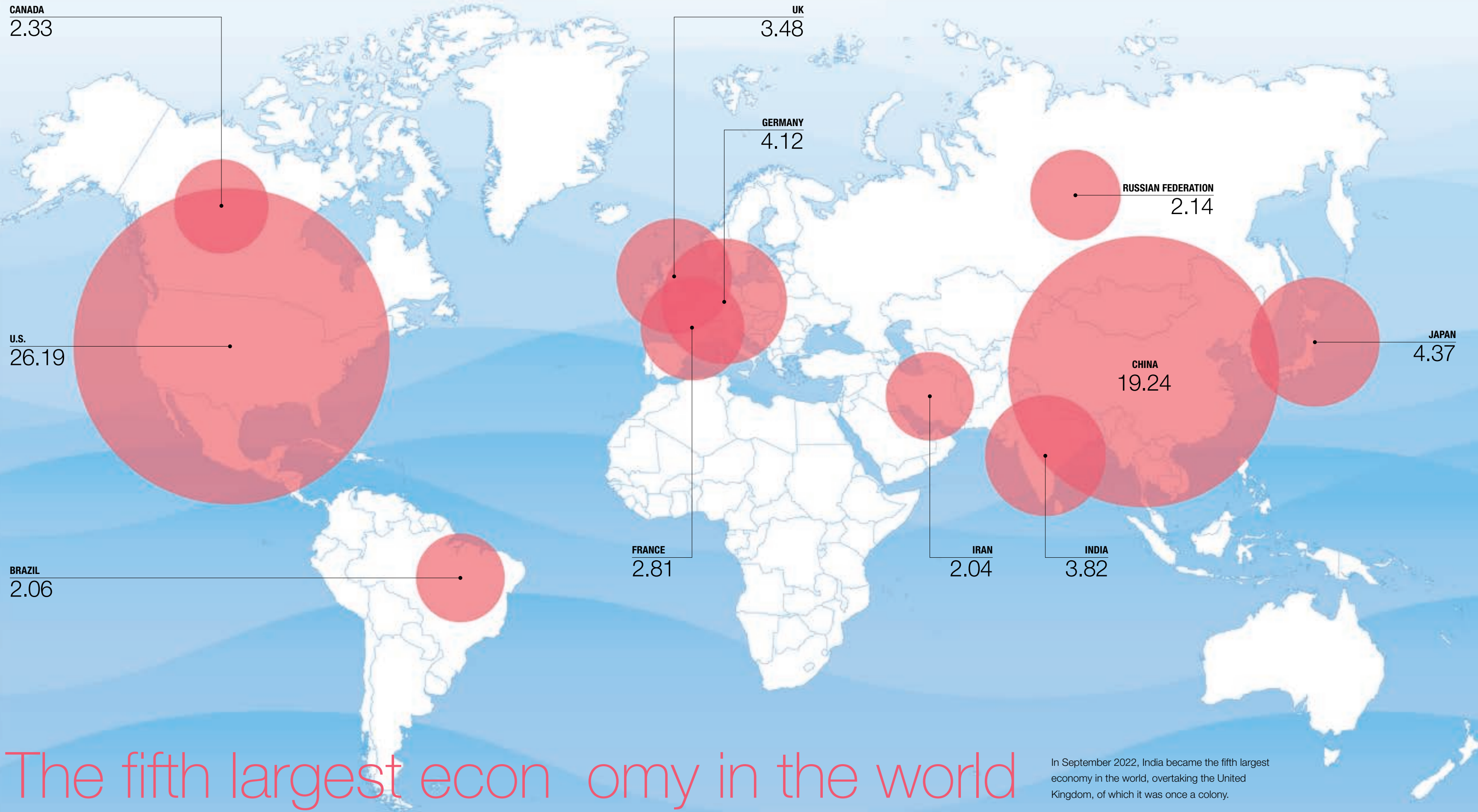
India’s presidency follows shortly after its emergence as the fifth-largest economy in the world. At this fortuitous moment, India takes the helm of a troubled global order to advocate for New Delhi’s brand of multilateralism. India aims to steer the diverging great powers back to the negotiating table at the G20 and bolster its credentials as a leading power on the global stage.

#### COMMITMENT TO MULTILATERALISM

India’s G20 Presidency will aim to move the world away from polarization towards a greater sense of solidarity. Its own reality as a multicultural democracy should guide it well in bringing together highly diverse stakeholders to consider and act on global challenges. The theme of G20 India 2023—Vasudhaiva Kutumbakam: One Earth, One Family, One Future—encapsulates India’s conceptualization of the global order and its own role in it. And New Delhi has shown that it does not dwell merely on rhetoric. In 2020 as COVID-19 first surged, it insisted on the need for the international community to work together and help those at the bottom of the ladder, even as developed nations turned inward, with some of them hoarding enough vaccines to inoculate each adult five times over.

At a time of grave worldwide crisis, New Delhi has effectively used all the instruments and platforms available to India to make the case for global engagement. This is also an attempt to fill the leadership vacuum in the global order as the vulnerabilities of both China and the U.S. become ever more visible. India has shown that a nation with limited capabilities can also emerge as a leader by outlining the concerns of like-minded countries and working with them to build capacities in smaller states.

The G20 is unique in so far as it brings together the developed and the developing nations to discuss and create solutions to global governance challenges. India can bridge this divide by forging a consensus on key global issues. New Delhi has been vociferous in giving voice to the aspirations of the Global



The fifth largest economy in the world

In September 2022, India became the fifth largest economy in the world, overtaking the United Kingdom, of which it was once a colony.

Source: International Monetary Fund

GDP in thousands of billions of dollars





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South, at a time when few global powers have either the time nor the resources to cater to the most vulnerable—occupied as they are with their own domestic woes. The pressures of global disruption are being absorbed largely by the poorest economies, and few powers seem willing to consider their challenges with the seriousness they deserve. By hosting one of the highest-profile international gatherings ever amid great turbulence, New Delhi is signaling its readiness to think big and deliver big—a stance much of the world had long expected from India.

**A TURNING POINT**

The COVID-19 pandemic marked a watershed moment for the global order. The post-COVID international landscape has been marred by increasing geo-political and geo-economic tensions. In the Indo-Pacific, an emerging theatre of global competition, India faces a series of challenging questions. These include navigating great power rivalry, conflicts, economic crises, deglobalization, and adverse climate events, all against the backdrop of a weakening multilateral order.

However, each of these challenges is offset by opportunities for India. Notable among them, the chance to regain trust and leverage in its neighborhood, gain a foothold in global supply chains, expand cooperation with the West, push its agenda for clean energy transition, and solidify its credentials as a global leader while steering international discourse and cooperation.

Success would elevate its status in the global order, handing India crucial strategic gains.

This is an inflection point for the global order and for India. India is on the cusp of achieving something dramatic: not only a top-tier economic power that is also a multicultural democracy but also a top-tier geopolitical player that can lead, not simply balance. The choices New Delhi will make over the next few years will define the contours of that rise.

**we**

**HARSH V PANT**

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New Delhi wants to support the aspirations of developing countries, which suffer the most from global crises. Photo: Imphal city.



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**OPEC**



# PRODUCER'S



## TRICKY BALANCING ACT

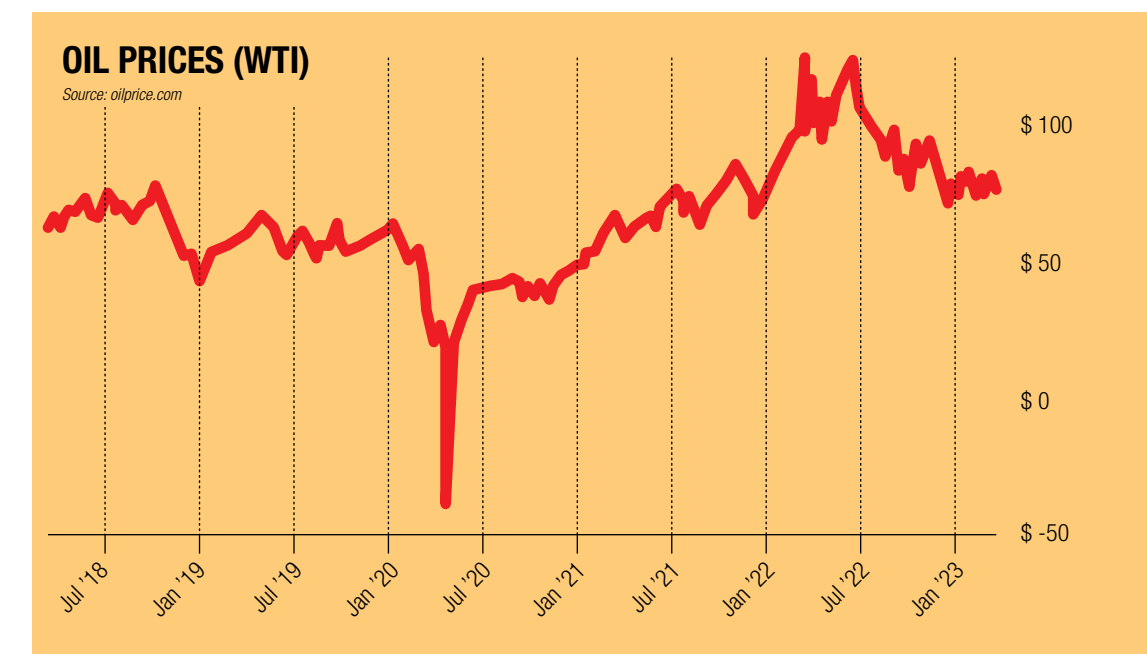
by Robin Mills

OIL & GAS PRICES ARE HIGH BUT NOT EXORBITANT AND APPEAR STABLE. OPEC MEMBERS' ECONOMIES ARE GROWING FASTER THAN THE WORLD AVERAGE, BUT NEW INTERNAL AND EXTERNAL RISKS AWAIT JUST BEYOND THE HORIZON

**A**FTER A TURBULENT EIGHT YEARS, OPEC countries appear to be in a comfortable position. Oil prices are quite high but not excessive. They have been relatively stable since December, and OPEC retains the initiative on whether and when to adjust production. But problems lurk beneath the surface: a growing divide within the organization, latent tensions in the OPEC alliance, and geopolitical threats. Despite the lifting of China's zero-COVID policy, the sanctions and bans on Russian oil, and somewhat improved sentiment over the global economy, oil prices have not retraced last year's near-record highs, which approached \$130 per barrel in March and June. Many analysts continue to forecast a rise from the current level of around \$85 per barrel for Brent crude, the main international benchmark, to over \$100 per barrel later this year.

### GROWING ECONOMIES

The economic outlook for the thirteen OPEC members this year is quite good: the unweighted average of IMF forecasts is for 4.2 percent growth, considerably better than the global average of 2.7 percent. But most are held back by low anticipated expansion in their oil sectors because of continuing quota restraints or inadequate production capacity. OPEC complains repeatedly of underinvestment in the energy sector, yet some of its members are among the worst offenders, given their huge resource base and low production costs. After steadily increasing output targets as the post-pandemic recovery took hold through 2021 and the first half of 2022, the OPEC front sprung a surprise in October 2022 by announcing a substantial 2 million barrel per day (bpd) cut in its ceiling, of which 1.27 million bpd would come from the ten quota-bound OPEC members. Saudi Arabia and several other members made further "voluntary" cuts in April 2023 totalling a nominal 1 million bpd, in addition to a previously announced 0.5 million bpd reduction by Russia. Output targets are likely now to hold steady until and unless prices rise substantially. The International Energy Agency sees the "call on OPEC," the amount of oil required to balance the market, averaging 29.89 million barrels per day in 2023 and reaching 31.2 million bpd in the fourth quarter. OPEC's own estimates are rather lower: 29.42 million bpd on an annual basis, and 30.43 million bpd in the fourth quarter. Reuters estimated the organization's output at 28.97 million bpd in February 2023. The OPEC-10 members were 0.88 million bpd below target.



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### THE GROWING DIVIDE WITHIN THE ORGANIZATION

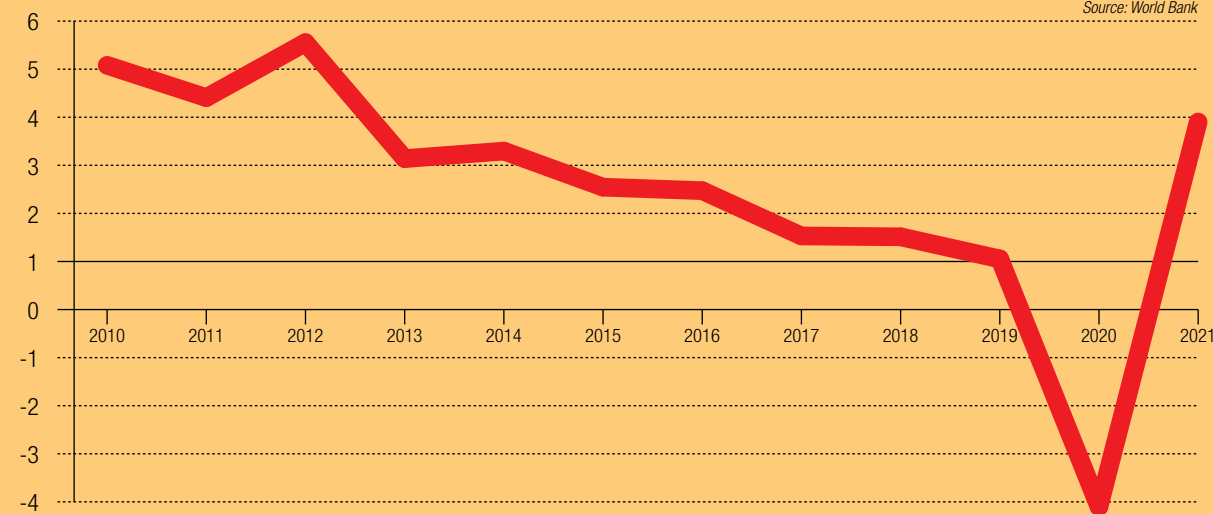
The divide within OPEC lies between those countries with the ability to add substantially to production – Saudi Arabia, the United Arab Emirates, and to some extent Iraq – and the rest, who are struggling just to keep up current output. This is a legacy of years of underinvestment, especially in Angola and Algeria, and in some places, political and security problems – notably Libya, Venezuela, Iran, and Nigeria. Kuwaiti domestic politics prevent it from investing properly in its upstream industry, with capacity gradually sagging. Production in Iran and Venezuela has recovered a little as the U.S. seems to have eased off sanctions enforcement, while Nigeria's newly elected president Bola Tinubu and a recently passed Petroleum Industry Act might help revive its lagging upstream.

Despite China's halt to the zero-COVID policy, sanctions and bans on Russian oil, and improved sentiment on the world economy, oil prices have not regained the almost record highs of last year (close to 130 dollars a barrel in March and June).



## GDP GROWTH RATE (%)

Source: World Bank



After the collapse caused by the pandemic, the OPEC countries' economies have resumed growth at a higher rate than the global average.

Even within the core group, state company Saudi Aramco is cautiously boosting its capacity from 12 to 13 million bpd by 2027 but is in no hurry to go beyond that. Iraq wants to expand capacity from about 4.8 million bpd today to 7 million bpd by 2027. This is a feasible target for Iraq's subsurface resources but is near-impossible given unfavorable investment terms, the departure of several major international oil companies in favor of growing dominance by Chinese firms, the slow pace of negotiations on critical new projects with France's TotalEnergies, and lagging infrastructure for oil export, gas treatment, water injection, and power generation. The semi-autonomous Kurdistan region, which produces about 0.4 million from Iraq's total, faces its own challenges in internal political rifts, constitutional showdowns with the federal government in Baghdad, and an arbitration threatening its use of the oil export pipeline through Turkey.

In contrast, the UAE is increasingly impatient to deploy its new assets: capacity is now 4.2 million bpd and advancing towards 5 million bpd by 2027 and perhaps a longer-term 6 million bpd, while allowed output is just 3.019 million bpd. This has led to rumors, recently reported in the Wall Street Journal, that the UAE might consider leaving OPEC, as neighboring Qatar did in January 2019. This looks implausible for now but is a negotiating point, as the UAE also applied pressure in July 2021 to raise its baseline, by which cuts are calculated, from 3.168 to 3.5 million bpd.

### TENSIONS SIMMER WITHIN OPEC+

The tensions within the OPEC+ alliance relate to the position of Russia. When prices slumped in late 2014, OPEC and specifically Saudi Arabia, concluded that it could not fight both U.S. shale drillers and Moscow. Bringing Russia, and a group of other significant non-OPEC producers, including Oman, Kazakhstan, and Azerbaijan, into the alliance in 2016 was a major achieve-

ment of energy diplomacy. After a brief breakdown in March 2020 in the face of the COVID lockdown-induced demand collapse, OPEC was instrumental in raising prices again with deep production cuts. Gulf OPEC countries value the alignment with Russia: active oil market management may be needed at any time, Russia is an essential player in other tricky files in Syria, Iran and Libya, and they welcome a counterweight to a U.S. they perceive as unreliable.

But Moscow's invasion of Ukraine on February 24th, 2022 upturned the energy world. Self-sanctioning by European buyers was followed by outright bans on importing most Russian oil and refined products into Europe and the U.S.. Moreover, shipments elsewhere cannot use G7 shipping or insurance unless the oil is sold below price caps: \$60 per barrel for crude oil, \$100 per barrel for high-valued refined products such as diesel, \$45 for heavy fuel oil, and other-low value products.

Saudi Arabia, in particular, and Iraq have been the primary beneficiaries in gaining market share in Europe. But the Gulf OPEC producers have faced greater competition in their core growth markets: India, which imported barely a drop of Russian oil before the war, and China. As a result, these producers face something of a dilemma, as do their traditional Asian customers: is this a temporary shock, or a permanent state of affairs, when refiners might upgrade their facilities to run more Russian crude, and where Gulf OPEC may have to compete more aggressively to safeguard their position?

Russian crude is sold at substantial discounts and with high shipping costs for the long voyages to Asia, but export volumes have remained solid, so prices moderated after initial spikes. The UAE, for one, has benefited from importing presumably discounted Russian crude for refining to free up its production for export and from storing and blending Russian-origin petroleum at its hub of Fujairah. Numerous trading companies, including both newcomers and rebadged Russian entities, have set up in Dubai.

Russian deputy prime minister with responsibility for energy, Alexander Novak, did say in February 2023 that his country would cut production by 500,000 bpd from March. In a way, that was welcome to OPEC colleagues, who reciprocated with their own reductions in April. But if markets tighten later in the year as Chinese demand continues to recover postCOVID, Saudi Arabia may feel a production increase is warranted, yet face Mr. Novak's veto. That would bring latent tensions into the open.

If oil prices rise sharply, because of Russia, Chinese recovery, or other factors, the U.S. would likely return to exerting pressure. In July 2022, President Joe Biden visited Saudi Arabia and came away with a minimal and short-lived production increase, setting off furious denunciation from Washington and threats – Congressional rather than presidential – of action against Riyadh, such as the perennial anti-monopoly NOPEC bill. Ultimately, prices dropped due to a weakening world economy, leaving OPEC vindicated, and the Democrats did better than expected

in the mid-term elections. Nevertheless, it's not hard to imagine a return to such discord this year.

### GEOPOLITICAL THREATS

The geopolitical threats came starkly into shot in September 2019 with the likely Iranian drone and missile attacks on Saudi oil facilities that temporarily knocked out 5.7 million barrels per day of production. But the pandemic, then the invasion of Ukraine, for once overshadowed Middle East conflict. The UAE-Saudi and Turkey-Qatar blocs have reached détente. The region has so far dodged the fall-out of the growing China-U.S. confrontation.

Yet Iran continues to ramp up uranium enrichment levels and will, at some point, have to decide whether it wants to take furthermore threatening steps. The nuclear deal with the U.S. is moribund, especially following the brutal crackdown on the widespread protests that began in September 2022 and continue at lower levels, and Tehran's closer military cooperation with Moscow. Moreover, the rhetoric from Israel's new hard-right government is increasingly threatening. A diversion may be tempting as it battles domestic opposition and steps up repression on the Palestinians.

The longer-term global energy challenges have been pushed into the background. The threat of peak oil demand – an inexorable decline in oil consumption because of the adoption of electric vehicles and other non-oil technologies alongside carbon prices or other disincentives for oil use – has receded for a few years. OPEC countries have enthusiastically welcomed the renewed awareness of them as critical providers of energy security.

In particular, Saudi Arabia and the UAE, which hosts the COP28 climate conference in November, have stressed the need for an energy "transition," not revolution, and promoted non-emitting uses of hydrocarbons, including petrochemicals, "blue" hydrogen and carbon capture and storage. They believe that their low-cost base, low carbon intensity of production, and giant reserves place them in a strong position. Moreover, with Russia hampered by sanctions and Western oil companies preferring to return cash to shareholders and pursue decarbonization rather than major new investment, OPEC in general – and its core members in particular – expects to capture market share even if overall demand drops. The more solid OPEC economies are planning for the future, expanding from oil to gas, and from gas to renewable energy, hydrogen, and sometimes nuclear power. High prices give weaker members a reprieve – but one that, on past form, most of them will squander.

### We

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# THE FAILURE OF PREDICTIONS

REALITY LOVES TO BUCK OUR EXPECTATIONS. OFTEN, WARNING SIGNS THAT WERE MISSED HAVE PROVED DECISIVE IN SHUFFLING THE DECK AND TURNING EXPECTED SCENARIOS ON THEIR HEADS. A REVIEW OF COUNTRIES AND ORGANIZATIONS THAT HAVE CONTRADICTED ANALYSTS' PREDICTIONS

by Roberto Di Giovan Paolo

FROM WAR TO INFLATION, hardly anyone foresaw the key geopolitical and economic scenarios dominating 2022. So, as we focus our attention on the countries that we believe will mark the near future, perhaps it is worth looking back on the predictions from yesteryear that have failed, and on those that have proved to be weak or poorly structured. This short review of organizations and countries that have bucked the expected trends is certainly not exhaustive, but it's a useful reminder that reality does not always match our expectations.

## THE BRICS ROLLER-COASTER RIDE

Brazil, Russia, India, China, and South Africa – the BRICS countries, as they came to be known, were supposed to dominate the world economy of the 21st century. Yet their experiences have diverged widely, due mostly to the policies their rulers have followed.

Brazil, from Lula to Lula, went into steep decline under Dilma Rousseff and then a nationalist interval under Jair Bolsonaro, who withdrew from the world stage, starting with COP25 that was supposed to be held in Brazil and ended up rerouted to Madrid. We all know of Russia's current predicament, though it struggled to hold its own in the global economy against China and the U.S. long before its invasion of Ukraine. South Africa has not yet recovered from the post-Mandela scandals and retaliations in the African National Congress. Only India and

China have really lived up to expectations, at least in quantitative terms. China—that chimeric empire of socialist capitalism—battles it out with the United States to lead the world in innovation. India has been steadiest in economic growth and technological innovation, also has become, with its consolidated political leadership confirmed in elections, a global reference point on the major issues of environment and energy. The position of the subcontinent, which during the most recent COPs has called for policies to combat climate change that take into account countries different stages of development, has boosted India's role as the standard bearer for the demands of the least developed countries.

## OPEC IS BACK IN THE RACE

In a recent issue of WE, we analyzed the rise and fall of the role of the organization that in the 1970s had become a reference point not only for oil rich developing countries, but also the spearpoint of an economic confrontation that set out to compensate post-colonial economies with bright new economic and cultural prospects. But the West's shift towards new and green energies and the political instability in both some Arab countries and Venezuela, have weakened the organization's role and its political voice. Yet the end of the pandemic and the onset war have enabled a comeback for those who produce the energy that the forced spectators of the Ukraine War depend on.



## GREAT BRITAIN: UP AND DOWN WITH BREXIT

Among the major powers, Britain has certainly experienced the most momentous changes in the past few years. From Blair's "Cool Britannia" and the Britpop era through the great saga of the Royal Family, with its unexpected 2022 "season finale" leading to Charles's accession to the throne. In the meantime, while Brexit held out the hope of a return to imperial glory, the post of prime minister passed from Theresa May to Boris Johnson, the spearhead of Brexit itself, and then to Liz Truss for about a month... giving even Britain a taste of the Italian-style politics, before coming to land on the first prime minister of overseas ancestry, Rishi Sunak, who, as a young Conservative has to deal with the less-than-commendable economic effects of Brexit and polls that show a sharp rise in popularity for moderate Labour under a new leader, Keir Starmer. Again, when it comes to Brexit, the fall from grace is always just a step away.

## ETHIOPIA: A STORY OF AFRICA

In 2019, Ethiopia seemed poised for new golden age: a young and respected prime minister, Abiy Ahmed Ali, signed a peace treaty with Eritrea after decades of war and was awarded the Nobel Peace Prize. Then, suddenly, in November 2020, conflict flared up in the Tigray region, and, in a flash, the economic gains and the government's reputation were squandered: accusations of militarism and cultural hegemony followed, then a slew of corruption cases, accusations of political killings, and warfare that resulted in more civilian deaths than military —

which, though customary in modern warfare, is a tragic recurring theme in Africa. Ethiopia is not the only country facing unrest on the continent, of course; just before Christmas 2022, UNICEF reported South Sudan, Congo, Burkina Faso, and Kenya among the places of most severe political and military friction and sites of tragic conflict. Alongside heartening stories of small and medium-sized entrepreneurship and growth, Africa remains a region where optimistic economic, political, and social predictions too often go wrong.

## IRAN AND AFGHANISTAN: FUNDAMENTALISM PREVAILS

Looking eastward, optimism for Iran and, especially, Afghanistan, seems to be a thing of the past.

In the wake of the tragic case of Mahsa Amini, beaten to death by revolutionary guards and police assigned to enforcing Islamic public decency, Iran has fallen back into street fighting and violence with special tribunals and death sentences handed down to young and very young protesters.

In Afghanistan, the botched departure of U.S. troops became the most contested decision of the Biden era. As the old Taliban regime retook power in Kabul, Afghanistan's democratic "spring" came to a premature end, leaving the West ample food for thought.

## SOUTH AMERICA: THE NEVER-ENDING RECOVERY...

It is not only Lula, who is once again president of Brazil; the theme of never-ending recovery hangs over much of South America. This century has seen proclamations of a Bolivarian Revolution, military coups; chronic voter disillusion and leaders attempting to unconstitutionally extend their mandates; thousands of street protests and, of course, the now-traditional "cacerolazos" (pot-banging protests). In Chile, the young president Boric, after a resounding victory in elections, failed the test of the referendum on constitutional reform and will now have to contend with political mediations. Peru ousted Pedro Castillo after the president tried to dissolve parliament, and now

there are protests against his successor president Dina Boluarte, who seems unable to return to democratic normalcy. For now, chaos reigns supreme. And then, as always, there is Argentina, with a female vice president, Cristina Kirchner, former First Lady and president, on trial for corruption and survivor of an assassination attempt; and an incumbent president, also a Fernández, who will run again but may no longer command a majority. A country of wonders and of simultaneously the rosier and gloomiest predictions: with the longest estab-

lished middle class in South America, but also with 64 percent year-on-year inflation in 2022. With natural resources that render it almost self-sufficient, but always at odds with the International Monetary Fund (the current battle is over restructuring debt repayments of some USD 45 billion), whatever its democratic regime and the color of its government. In short, a real conundrum to be avoided by those eager to see their predictions proven right.

**We**

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Hopes of just a few years ago for a progressive democratization of Iran have been dashed. Since September, the Islamic Republic has been dealing with protests and strikes triggered by the death of Mahsa Amini, brutally repressed by the regime. Photo: Azadi Tower, Tehran.

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