



Geopolitical Insights Issue 3



*Reliable intelligence on political unrest,
economic stability and international
relations around the world*

In this month's report:
South Africa, Hungary, Argentina, Taiwan

South Africa



South Africa will celebrate 30 years of representative democracy in 2024, marking the anniversary of the first non-racial elections held in April 1994. Despite being Africa's second-largest economy and largest international power, the country still faces many challenges. South Africa's unresolved unemployment rate remains persistently high at 34.7%. Furthermore, the country's history of racial inequality still lies deeply entrenched in its economy, as indicated by its Gini coefficient, a measure of income distribution inequality (0 representing total equality, and 100 full

inequality). South Africa holds a rating of 63, making it the most economically unequal society in the world.

These factors continue to contribute significantly to South Africa's instability and extremely high crime rates. According to the 2022 report by the South African Police Service (SAPS), there were 1,480,763 reported serious crimes, including a staggering 25,181 murders. This highlights a deterioration across almost all criminal activities, with murders reaching their highest rate since 2003. This surge can be attributed to a

combination of challenges, including utility mismanagement, ongoing economic hardship stemming from the harsh impact of the COVID-19 pandemic, and the persistently high unemployment rate, which destabilizes the nation.

Such pervasive criminality and poverty have fuelled civil unrest, with a recent nationwide day of shutdown following months of political mismanagement, corruption allegations, and sluggish economic growth.

South Africa

One of the most widely publicised issues currently facing South Africa is the persistent challenge of effectively managing its energy utilities, leading to widespread load shedding (the deliberate shutdown of electric power in a part or parts of a power-distribution system, generally to prevent the failure of the entire system when the demand strains the capacity of the system). The country finds itself on the brink of State of Emergency declarations within its energy industry due to the escalating fuel shortages experienced by Eskom, the government-owned power utility responsible for over 90% of the nation's energy supply. This dire situation has resulted in a significant portion of the country enduring more than 200 days without electricity in 2022 – only

expected to increase over the course of 2023. In the most affected areas, people frequently report enduring power outages that last over 12 hours a day.

On 9th February 2023, President Ramaphosa delivered his State of the Nation Address, in which he declared a national state of disaster in response to the energy crisis. This declaration granted the government the authority to circumvent regulatory barriers and facilitate the importation of energy from other countries. However, this approach has thus far proven to be insufficient in addressing the magnitude of the problem, as evidenced by the 18.65% price hikes in April that failed to alleviate Eskom's financial challenges.

The persistent issue of load shedding, coupled with the political impasse in finding a solution, has become a central cause of escalating unrest in South Africa. Load shedding not only fuels criminal activities in the country, but also poses a significant risk to businesses that have become dependent on expensive generators – often targeted by criminals – to ensure a reliable power supply. This situation undermines economic growth, which the IMF projects to increase by a mere 0.1% in 2023, a figure unlikely to address Eskom's, or the nation's, financial difficulties.



South Africa

The mishandling of South Africa's energy sector has come to symbolise the broader shortcomings of the ruling party, the African National Congress (ANC). In recent months, the ANC has faced allegations of corruption and encountered a more hopeful opposition than ever before during its 28-year uninterrupted rule. Corruption allegations have long plagued South African politics, but the leadership of President Ramaphosa has recently been marred by serious controversies and corruption claims. Notably, a sum of \$580,000 was discovered hidden behind a sofa at the president's rural retreat, resulting in an impeachment hearing and vote. While his unwavering party loyalty ensured his tenure, and subsequent reports with political implications cleared him of any wrongdoing, the reputation of both the president and the ANC has suffered significant damage, posing a threat to their future political standing. The

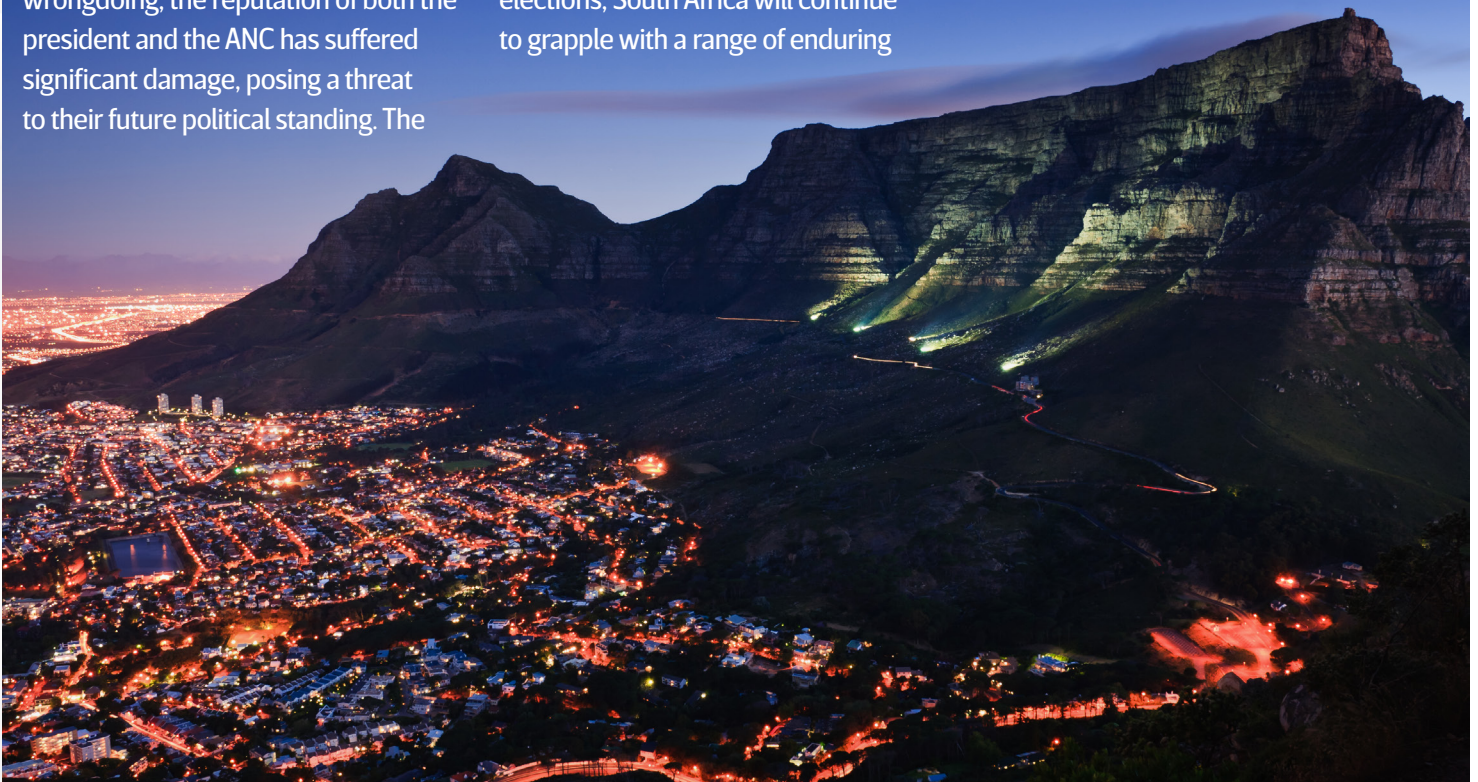
growing influence of the Democratic Alliance (DA) and the activism of the Economic Freedom Fighters (EFF) present a potential challenge to the ANC's majority in the national congresses. If successful, this would not only mark a significant turning point in South African politics but also potentially destabilise the country after nearly three decades of effective single-party rule.

The recent national shutdown, backed by the EFF, resulted in a day of unrest, indicating the potential for further similar events as the 2024 elections approach or in the aftermath of a closely contested campaign. These have the potential to disrupt the political landscape and cause further instability.

Irrespective of the outcomes of future elections, South Africa will continue to grapple with a range of enduring

economic and social challenges, including inequality and high levels of crime. These challenges pose risks to both the country's political and economic stability, as well as its leadership position on the continent. In addition to these longstanding issues, the short-term effects of COVID-19 and ongoing load shedding exacerbate the situation, further undermining the government's ability to address these significant problems.

The inability to find effective political solutions has left many feeling disenfranchised, with a growing perception that the functioning of politics, society, and the economy across South Africa is, if not entirely broken, certainly fractured.



Hungary

Like many former Soviet states, Hungary has encountered challenges in its journey towards democratisation. The country's recent democratic history has been marred by allegations of corruption and a worsening political climate. There was considerable optimism surrounding the democratisation process following the end of Soviet rule, reaching its pinnacle with Hungary's accession to the European Union (EU) in 2004. However, since 2010 there has been a notable regression in democratic values, characterised by the increasingly authoritarian leadership and governance of President Viktor Orban.



Under the leadership of Orban and his Fidesz party, Hungary has undergone a transformation into an illiberal democracy, raising concerns about the rule of law, freedom of the press, minority rights, and freedom of education. This transformation was facilitated by their remarkable electoral success. Despite receiving only 53% of the vote in 2010, Fidesz secured a supermajority, capturing over 68% of parliamentary seats. This allowed Fidesz to reshape the country through constitutional reforms, which included gerrymandering and a significant reduction in parliamentary seats. Subsequently, Fidesz has won consecutive elections and remains the most supported party in Hungary. The inflated parliamentary supermajority has granted them the ability to enact constitutional reforms at the discretion of President Orban.

Hungary

According to the 2022 Corruption Perceptions Index (CPI) published by Transparency International, Hungary currently ranks as the most corrupt country in the European Union, scoring only 42 out of 100. Furthermore, Hungary is the sole EU member state that is not rated as “free” according to the respected Freedom House metric. These assessments emphasize the country’s deteriorating democratic and human rights record.

Since the onset of the pandemic, this trend has been further intensified, with President Orbán leveraging Fidesz’s supermajority to consolidate near-absolute power through frequent declarations of a “state of danger.” These extraordinary powers grant the government nearly unrestricted authority to govern without significant parliamentary scrutiny. In 2022 alone, Orbán’s government employed executive decrees in 42% of all legislation, issuing a total of 267 such decrees. This surpasses

the 257 decrees enacted in 2020 at the height of the pandemic, indicating a continuous expansion of authoritarian powers.

With the introduction of Viktor Orbán’s 10th amendment to the Fundamental Law, the justification for granting emergency powers has been expanded to include armed conflict in a neighbouring country. While this provision may appear reasonable on the surface, its broad scope has been utilised to extend the reach of such measures. An example of this is evident in the case of pay disputes involving Hungarian teachers, where Orbán invoked an executive decree citing the Russian invasion of Ukraine. This decree not only halted teacher strikes but also imposed minimum service requirements. The Economist Intelligence Unit, in its assessment of Hungary’s business environment, has highlighted the risks posed by the “unpredictable government policymaking” and “the increasing state control of industries”

through executive decrees, posing challenges to business operations in the country.

While Hungary’s democratic trajectory may be a cause for concern, the country has experienced a degree of economic success evidenced by its 4.9% growth in 2022, as reported by the International Monetary Fund (IMF). President Orbán has fostered close ties with Russian leader Vladimir Putin, enabling Hungary to maintain a stable gas supply from Russia. However, it is worth noting that this alignment with Russia has occurred despite condemning the war in Ukraine, leading to some short-term economic gains. This being said, recent adjustments in the IMF’s economic forecast, projecting a growth rate of only 0.5% in 2023, suggest that the geopolitical landscape is becoming more restrictive and challenging for Hungary.





+ EMEA - Europe, Middle East, Africa +

Hungary

Hungary's economic and political stability hangs in the balance as it navigates the complexities of geopolitics. The mounting pressure from the European Union (EU) for further Russian sanctions limits Orban's ability to make geopolitical concessions to Moscow. However, as recently as February, the president openly questioned Ukraine's viability as a state, referring to it as "the land of nobody." This statement carries weight considering that over 1.2 million people have crossed

directly from Ukraine to Hungary since the conflict began (although a smaller proportion intends to remain in Hungary). Nevertheless, the country has experienced increasing costs associated with migration, an issue that Fidesz has long been aware of.

Hungary has sought to balance the competing influences of Moscow and Brussels. While EU membership is acknowledged by Orban as an

economic necessity, it remains an uneasy partnership. The ongoing democratic backsliding, combined with the neighbouring conflict in Ukraine, further impedes Hungary's progress towards becoming a free and prosperous democracy. As competitive authoritarianism replaces democracy, there is the potential for escalated business and travel risks as the country finds itself estranged from both Eastern and Western allies.



Argentina's economy is currently facing significant turbulence with an inflation rate of 104%. This has resulted in drastic real wage cuts and declining living standards for citizens. President Alberto Fernández, who was elected in 2019 with a mandate to address Argentina's economic downturn, has been unable to fulfil this promise. The impact of the COVID-19 pandemic, coupled with challenges in reopening the country, has further exacerbated social setbacks, leading to a decline in Fernández's popularity. In addition, the stagnating GDP growth has worsened the financial ability of citizens to purchase goods and services. The government has seen three economic ministers since

July, indicating a lack of stability, and Fernández's leftist coalition appears to be permanently divided. In such economic conditions the incentives for criminal activity tend to increase, raising the risk of theft and other property crimes.

The severe economic challenges have resulted in the withdrawal of the centre-left leader from the upcoming election, and the ruling Peronist party's failure to maintain its majority in Congress during the November 2021 legislative elections. Adding to Argentina's political instability is a rift between President Fernández and Vice President Cristina Kirchner, primarily cantered around differing views on implementing an agreement with the

International Monetary Fund (IMF). The proposed agreement requires strict control of the money supply by the central bank, and fiscal tightening to reduce the country's debt burden.

Argentina's new finance minister, Sergio Massa, has been entrusted with the task of curbing the escalating inflation by addressing the growing public spending. However, these measures are likely to contribute to public dissatisfaction. With no clear solution in sight, the political and economic instability in Argentina is expected to persist throughout 2023, playing a significant role in the upcoming elections.



Argentina

The economic instability in Argentina is increasingly fuelling political unrest, with various parties blaming each other for the current turmoil. The lack of a viable economic solution has led to a growing political divide. Moreover, President Fernandez's withdrawal from the upcoming election has created a political vacuum, attracting right-leaning candidates to enter the race. Notably, candidates like Patricia Bullrich of the Republican Proposal party and economist Horacio Rodriguez Larreta have positioned themselves as leaders of the centre-right conservative movement, gaining momentum in the polls and posing a potential challenge to the incumbent Peronists. The upcoming election campaign is anticipated to be highly contested and divisive.

The primary security concern for the country is the potential for widespread demonstrations and political divisions, similar to what was witnessed during the 2020 US elections and the 2022 Brazilian election. These events highlight the risks associated with political polarisation and the potential for social unrest in Argentina.



Amidst the domestic unrest, President Fernandez has turned to foreign policy to showcase progress. Argentina recently announced its decision to re-join the Union of South American Nations (UNASUR). The country's departure from UNASUR in 2019 marked a shift away from regional integration in Latin America, and its re-engagement is seen as an effort to foster closer economic ties with regional partners. Furthermore, Buenos Aires has expressed its interest in becoming a member of the BRICS organization. President Fernandez participated in China's High-Level Dialogue on Global Development, where Argentina formally submitted its application for BRICS membership in 2022. This move signifies Argentina's eagerness to not only play a regional role, but to also have a global voice despite the ongoing domestic turbulence.

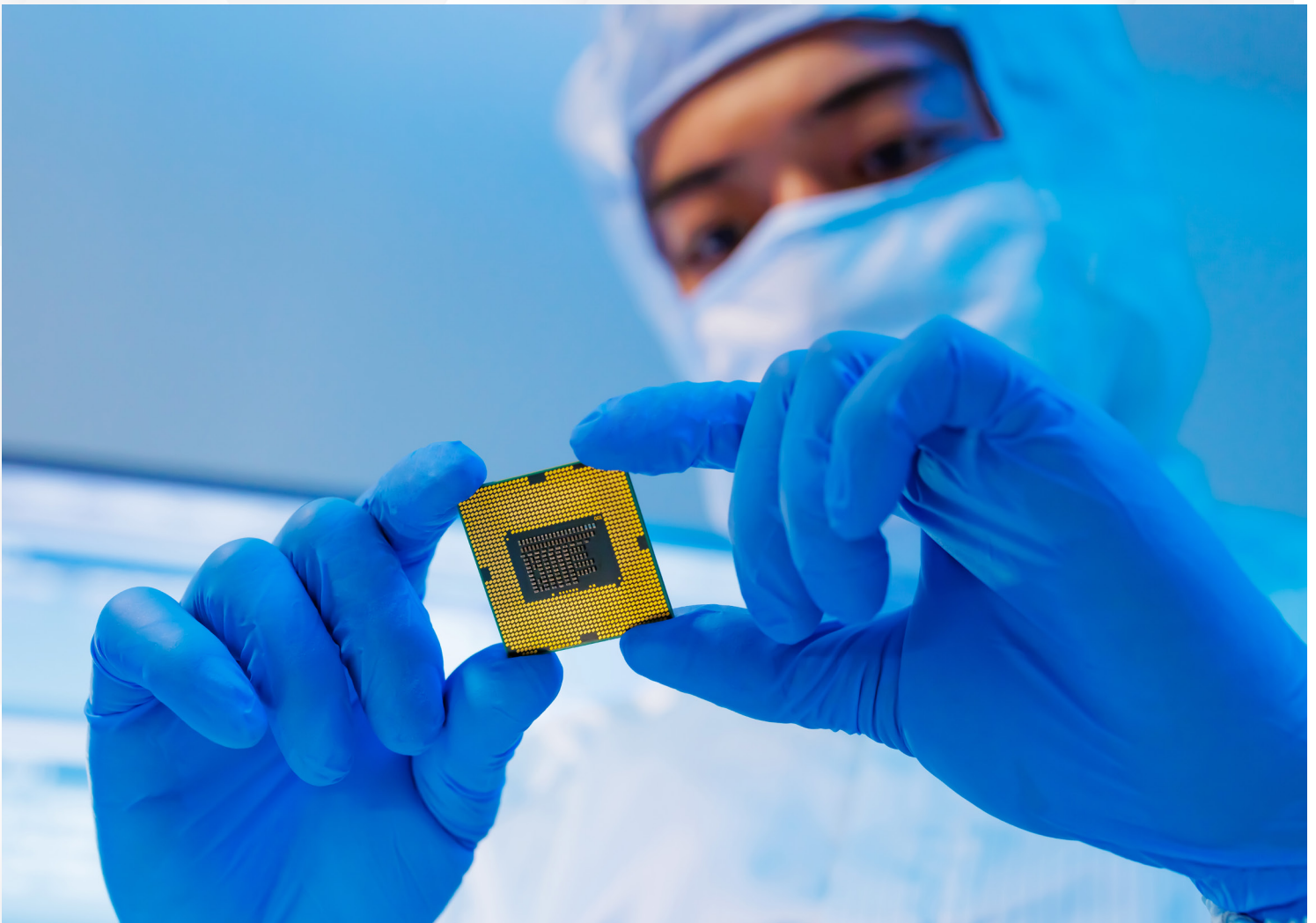
Taiwan



Located at the northern entrance of the South China Sea, Taiwan holds a pivotal position in regional geopolitics. This remains a contentious issue between China, which claims it as its 23rd province, and the United States, which has expressed its commitment to defend Taiwan in the event of invasion under the Taiwan Relations Act of 1979. The geopolitical landscape of Taiwan is heavily influenced by the ongoing power struggle between China and the United States. Recognising the growing assertiveness of its neighbour, Taiwan is seeking greater support

from the United States. President Tsai Ing-wen has recently held meetings with two prominent US politicians, with Nancy Pelosi's visit to Taiwan in August 2022 and a recent meeting with Kevin McCarthy in Los Angeles. These engagements have drawn strong condemnation from Beijing. In response to the president's visit to the US, Beijing has expressed its ire by conducting large-scale military exercises near or within Taiwan's sovereign airspace and waters. These exercises have included practicing a blockade of the island. The volatile

events in the region have heightened the risk of conflict, as Taiwan has emerged as a crucial geopolitical hotspot in the ongoing Sino-US rivalry. In the event of a Chinese invasion, there would be significant consequences for travel and businesses, particularly considering Taiwan's role as the leading global producer of semiconductor chips (constituting 95% of the world's production), which are vital components for modern technology and societies.





The ruling party in Taiwan, the Democratic Progressive Party (DPP), under President Tsai Ing-wen, has taken a hard line against Beijing. With Taiwan being a functioning democratic country, the fear is that reunification with China would lead to the disappearance of liberal norms, as has progressively been witnessed in Hong Kong. China has faced heavy criticism for its human rights abuses, lack of press freedom, and political persecution. However, the Taiwanese opposition party, the Kuomintang (KMT), has favoured closer economic and cultural ties with China. The DPP has a mandate for an assertive stance opposing Chinese reunification, following their resounding victories in the 2016 and 2020 general elections. However, the KMT has been successful in more recent local elections, emerging as the largest party in 2022 (while the DPP only managed to retain five seats). This outcome suggests that the DPP's policy of resisting China and safeguarding Taiwan's interests may face domestic challenges. The future political landscape in Taiwan will not only have domestic implications but also significant global ramifications, as the island's geopolitical importance remains undisputed.

Despite being a small island with a population of fewer than 24 million people and an area of just under 36,000 km², Taiwan holds a global significance that few countries could rival. Its economy ranks as the 21st largest in the world, with a growth



rate of 6.57% in 2021. This economic fortitude is attributed to Taiwan's dominance in the export of electronic goods, particularly as the world leader in the semiconductor chip industry. The island's monopoly in this critical industry not only fuels the power struggle surrounding Taiwan, but also represents its strongest defence. Any prolonged conflict or blockade of the island would cripple global supply chains – including those of invading forces – with global consequences that could surpass even those of the Russo-Ukrainian war. However, Taiwan's near monopoly on global semiconductors also magnifies its economic risk. According to a recent report by the Chung-Hua Institution for Economic Research (CIER), future expected GDP growth has been downgraded from 2.73% to 2.01%, citing the key causes for the weakening of global demand as the Russo-Ukraine war, trade tensions between the United States and China, and financial problems in the American and European markets.

As Taiwan's economy heavily relies on the export of technological goods, its fortunes are intrinsically linked to the economic activities of major global powers, including Beijing and Washington. This underscores the need for a balanced foreign policy, and highlights Taiwan's vulnerability due to global geopolitical headwinds.

Overall, Taiwan's economic and political outlook will remain closely tied to global events. The primary risk for Taiwan continues to be the possibility of a future invasion from China, which, although unlikely in the short term, remains a long-term objective of President Xi. As a result, the safety and security of the island are dependent on the state of Sino-US relations, as Taiwan has become a significant factor in the power dynamics between major global players. It is a pivotal piece of real estate in the game of great power politics.



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