

## RiskWatch – Summer's storms in Emerging Markets

*This eventful summer has been filled with surprises and challenges not only in Europe but also globally. While recent cyclical developments are broadly in line with the evolution of Covid-19 pandemic and our related global economic scenario, several recent economic, social and (geo-)political events deserve a debriefing. We are not undertaking a full political analysis of selected individual countries, but these summaries of key events and background will highlight a spectrum of risks (types, horizons, likelihood) with potential severe business implications. Few events relating to normal conduct of socio-political developments are not covered here (polarized political campaign in US, tight Presidential elections in Poland, demonstrations in Guinea, resurgence of violence in Colombia...).*

### Argentina: umpteenth renegotiations

**Events:** on May 22, 2020, the country registered its ninth default on sovereign debt by missing a USD 500mn payment to creditors. On August 4, President Fernández' administration reached an agreement with the biggest creditors on terms for a restructuring of USD 65bn in foreign-currency denominated bonds with a 55% haircut for bondholders.

**Background:** three years of recession since 2016 with a larger contraction expected in 2020 (about -10% y/y) due to Covid-19 related economic disruptions. In tandem with C. Kirchner as Vice-President, A. Fernandez (left-wing, Peronist) won the last Presidential elections in October 2019, against M. Macri who received mitigated results in terms of economic policies (high inflation, currency depreciation).

**Risk View:** continuous support of IMF (on-going financial program with USD 47bn already disbursed) will be critical in the short-term. Given the dire economic situation, an agreement with bondholders shows a pragmatic governance, with a potential for reduced political risks, and a favorable environment for domestic and international confidence.

## Belarus: popular contest of Lukashenko's reelection

**Event:** In power since 1994, President Alexander Lukashenko was re-elected for a sixth term on August 9, 2020. The arrest of political dissident Siarhei Tsikhanouski in May 2020, and allegations of massive electoral fraud triggered a continuous wave of peaceful protests calling for new free and fair elections, revisions of the Constitution, and the resignation of Lukashenko's government.

**Background:** Very poor Voice and Accountability, further evidenced by significant crackdown on journalists covering the unrest, has left a deep muzzle feeling in the population. Meanwhile, under the direct influence of Russia (50% of public external debt), Belarus acts as Moscow's buffer with EU and NATO countries.

**Risk View:** The popular revolt against the power in place is unlikely to yield a positive outcome, especially since the official endorsement of A. Lukashenko by Russian's security forces. The role of US and EU remain critical in bringing opposing camps to discuss and negotiate an acceptable outcome.

## China: rising show of power and muscles

**Events:** visible escalation in strategic tensions with the US, including closure of Consulates in Houston and Wuhan, extension of blacklisted Chinese firms over US national security or foreign policy concerns, extension of control on use of US technology, notably targeting Huawei and its affiliates, increasing military show-off around the Taiwan Straits; implementation of a new Security Law in Hong Kong, de facto destabilizing the “one country, two systems” principles; border tensions with India and assertiveness of navigational and territorial claims in South China Sea.

**Background:** post-epidemic reinforcement of Chinese President Xi Jinping’s control of power, coinciding with perceived weaknesses in the US and Europe (poorer management of the pandemic, larger economic shock, more uncertain political perspectives); domestic vulnerabilities (cyclical, technological) encouraging a short-term softer tone on trade issues, while structurally accelerating import / technology substitution.

**Risk View:** the short-term political consolidation remains vulnerable to an insufficient economic recovery, though it also ensures that policy tools will remain used to soften any further headwind. Overall, the events confirm that components of political and regulatory risks have become more critical when assessing projects, investments of domestic counterparts.

## Côte d'Ivoire: old soldiers never die

**Event:** President Alassane Ouattara announced (on Aug.13, 2020) that he will contest for a third term (election scheduled on Oct. 31). He reneged on his earlier promise to retire, after his chosen heir, Prime minister Amadou Gon Coulibaly, suddenly passed away in the summer. A. Ouattara's announcement has led to widespread anti-government protests.

**Background:** Côte d'Ivoire has been relatively peaceful since 2011 (following years of civil war – 2002-2007 & 2010-2011) after former president Laurent Gbagbo relented to give-up power to the rightfully elected Mr Ouattara. Despite recent economic progress, changes in the Constitution in 2016 allowing him to seek even a fourth term has come under criticism.

**Risk View:** The upcoming election is likely to stir bouts of violence as President Ouattara's two biggest rivals, former President Laurent Gbagbo and rebel leader Guillaume Soro, are respectively entering the fray and considering his options. The army could also make an appearance on the scene, thus not excluding a coup d'etat in the economic powerhouse of Francophone Africa.

## Ethiopia: Water tensions on the Nile river

**Event:** A source of dispute between Ethiopia and Sudan with Egypt, the Grand Ethiopian Renaissance Dam (GERD) was completed in July 2020. The GERD mega project on the Blue Nile River, started in 2011, is the biggest hydroelectric power plant in Africa (up to 6 gigawatts) and will provide steady water flow throughout the year, avoiding flooding to downstream countries Ethiopia and Sudan. Yet, Egypt fears shortages of water in the future.

**Background:** Historically, only Egypt had sole control over the usage of Nile due to two colonial-era treaties –1929 Anglo-Egyptian Treaty, and 1959 Nile Water Agreement between Egypt and Sudan. However, in recent years, Nile countries have started challenging Egypt's monopoly, thereby making the river Nile a regular source of tensions over water rights. While 95% of Egypt's population depends on the Nile's shores or delta, the GERD is expected to support the most Ethiopia's economy and revolutionize the agricultural sector of its north-western parts of Sudan.

**Risk View:** Despite the continuing dispute, the GERD is both a transformative state-led infrastructure project and a symbol of Ethiopia and Sudan national ambitions. Sudan is a strong ally for Egypt but trying to mitigate the risk of conflict between its two major African and Arab partners as it benefits from the dam in many ways. Since November 2019, many trilateral talks have been supported by the US and the World Bank (main funders) but US continue to be biased towards Egypt because of its geopolitical advantages. US has even suspended reservoir aid to Ethiopia. The three countries should stop political bias and reach a compromise on the filling of the GERD reservoir which will benefit the necessities for Egypt and the Nile countries.

## Lebanon: physical and institutional devastation

**Events:** A massive explosion in the port of Beirut on August 4 causing a human and economic tragedy (190 deaths, 6,500 injuries, USD 10bn in damages). Demonstrations resumed immediately after the explosion, leading to the resignation of Prime Minister Hassan Diab and his cabinet on August 10. In parallel, the currency, Lebanese Pound pegged to USD since 1997, has largely devaluated on parallel markets.

**Background:** Recent waves of refugees from war-torn Syria have shaken up Lebanon's basic confessional and demographic forces. Economic performances remained subdued, unemployment is swelling, and poverty strikes indistinctly. The Lebanese population, humiliated and angry, has been protesting since October 2019, even against the backdrop of the Covid19 pandemic.

**Risk View:** After a complex politico-confessional bargaining, the new cabinet under PM Mustapha Adib will have to undertake immediate and daunting challenges (power generation and banking sectors on the brink) while meeting at least part of the political reforms demanded by massive protests and international donors. Failing a convincing political leadership and minimal consensus, bifurcation towards a failed state situation cannot be ruled out.

## Mali's coup: history repeats itself

**Event:** President Ibrahim Keita was forced to resign by a military coup on August 18, 2020. The opposition coalition party M5-RFP demanded President Keita's resignation and the dissolution of Prime Minister Boubou Cisse's government over allegations of corruption, poverty, and failure to restore security. The ECOWAS countries have agreed to work with the new military leaders in forming a transitional administration ahead of fresh elections.

**Background:** Mass protests since June 2020, commonly known as June 5 movement, were led by conservative populist imam Mahmoud Dicko (head of Islamic High Council) as well as supporters of President's predecessor Amadou Toumani Toure. A. Toure was forced out in a coup in 2012 which also hastened the fall of the northern region of the country to armed militancy – some of tied to al-Qaeda in the Islamic Maghreb –, which have expanded their areas of operation into the central region of Mali. In 2015, President Keita's administration signed a Peace deal with the separatist rebels in the north Mali who have grown more cynical of the agreement which has failed to curb the violence. The ongoing violence, led by Mahmoud Dicko, who has raised Muslim insurgency, stoked with ethnic tensions amongst the local populations in Mali.

**Risk View:** Highest component of Mali's overall risk is related to sovereign debt, due to high share of external public debt (67% of public debt in 2020); thus, next Malian authorities will have to sustain external commitments to international donors / creditors. The Mali crisis is also increasingly threatening the stability of the wider Sahel region and has created a humanitarian crisis. The western forces (UN and France) probably come under pressures to at least reduce its counterterrorism as anti-French sentiments grow.

## Mexico: allegations of Presidential corruption

**Event:** a former boss of Pemex, national oil firm, revealed allegations of corruption acts (bribes and illegal campaign financing, etc.) against three former Presidents: E. Peña Nieto (2012-2018), F. Calderón (2006-2012), and C. Salinas (1988-1994). AMLO's brother and political allies have also been implicated in graft cases.

**Background:** populist President AMLO was actually elected in July 2018 notably by wooing voters to crack down on corruption and drugs' cartels. While the military was entrusted for law enforcement, AMLO's track record on corruption is obscure, considering his dismantling of anti-corruption agencies. Moreover, bribes and other kickbacks have a heavy economic toll.

**Risk View:** Undeniable exposure of elite political corruption is associated with significant gain in political mileage for AMLO's anti-corruption campaign. Before full investigations and potential convictions, the latest revelations can be viewed as a smoke screen of authorities' failure to manage the Covid-19 crisis, but also as a right step to address corrupt elite Mexican politics.



## Russia: President Putin tightens the noose

**Event:** President V. Putin has effectively consolidated his power through constitution amendments on July 1, including an extension Presidential term limits, which could allow him to remain in power until 2036; worsening relations with the US (purported meddling in the 2020 US elections); Mr. Putin's repeated support to repressive / autocratic regimes (President Alexander Lukashenko in Belarus, President Bashar al-Assad in Syria, joint military exercise with China); alleged poisoning of Mr. Alexei Navalny (key opposition leader), in a pattern of suppressing dissent voices.

**Background:** Changing of the Russian Constitution is a first since the post-soviet one adopted in 1993, which styles President Putin as the supreme leader (he is already the longest serving President). Also, Russia faces substantial economic challenges (high dependence on oil, insufficient economic diversification and sanctions from US and EU) which are exacerbated due to poor management of Covid-19 crisis.

**Risk View:** Going forward, V. Putin's consolidation of power is likely to intensify adverse rhetoric against Western democracies, so will the geo-political tensions with neighbors, and his unmasked support for autocratic regimes (Syria, Belarus, Turkey). Domestically, higher intolerance towards dissent, and promotion of conservative and nationalistic policies will aggravate existing social discontent, especially if President Putin fails to deliver strong economic growth (post Covid-19 and with modest oil prices).

## Turkey: ambitious expansion of Turkey

**Event:** President Recep Tayyip Erdogan's ambitious expansion in Syria and Libya, frequent threats to the UAE, Egypt, and western countries; Turkey's maritime dispute with Greece over energy resources in eastern Mediterranean Sea; recent discovery of country's biggest gas meddling in the Black Sea. President Erdogan's rejection of secularism to transform UNESCO heritage Hagia Sophia museum into a mosque.

**Background:** Turkey's radical transformation in domestic politics and in its international relations has been shaped by nationalist, Islamist, and authoritarian forces under President Erdogan's government. Turkey's relations with the US have rapidly deteriorated while negotiations with EU have stalled (worsening of bilateral relations UK, Germany, Greece, rejection over immigrants crossing by to enter the EU) and unresolved maritime dispute on energy resources in Mediterranean Sea. Conflicting interests and approaches in the Middle East (i.e. Syria, Libya, Iran, support to Palestinian militant group Hamas) raising tensions with Arab countries.

**Risk View:** President Erdogan's Turkey is becoming increasingly authoritarian and assertive in its foreign policy. The Hagia Sophia conversion into mosque has left a deep polarization on the population. Meanwhile the conflict involvement in adjacent countries (Iraq and Syria) and its strategic alliance with Russia should pivot Turkey's geo-politics away from western allies (US, NATO) though its success will be hindered by continuing domestic and foreign policy challenges.

## **UAE: deal with Israel as sign of new regional alliance**

**Event:** on August 13, 2020, Israel and the UAE announced a historic peace agreement to normalize bilateral relations, with opening of full diplomatic ties and promotion of tourism and financial flows.

**Background:** the agreement will normalize already existing informal bilateral relations. This is the third agreement of Israel in the Middle East (after neighboring countries Jordan and Egypt), and the first symbolic one with a GCC country.

**Impact:** beyond the contribution to Dubai's rise as global hub, regional security should be strengthened. The distress of seeing Turkey and/or Iran taking the role of regional leader encourages the creation of this new potential geostrategic axis, including GCC countries (barring Qatar), Israel, and Egypt.