

Iran-US war risks

29 Jul 2019 - Country Risk | Strategic Report

Iran's Atomic Energy Agency chief Ali Akbar Salehi said on 28 July that construction activity would restart at the Arak heavy-water facility. France, South Korea, and the United Kingdom said they would send vessels to the Gulf after a British-flagged oil tanker (*Stena Impero*) was seized by Iran's Islamic Revolution Guards Corps Navy (IRGCN) in the Strait of Hormuz on 19 July. These events follow Iran's announcement that it has exceeded the 300 kg of low-enriched uranium permitted by the Joint Comprehensive Plan of Action (JCPOA), the nuclear deal, and on 7 July started enriching uranium to 4.5%, instead of under 3.67%.



Iranian troops in the Strait of Hormuz take part in the country's national celebrations in the Gulf on 30 April 2019.

Atta Kenare/AFP/Getty Images: 1140242764

- **Short of deliberate targeting of US military personnel or civilians in future incidents overtly attributable to Iran, IHS Markit assesses that the United States is likely to seek to avoid military engagement.** The US is likely to prioritise persuading allies to back its efforts to secure shipping militarily, which it is partially succeeding to do, rather than rush to a military response. Should it resort to a military option, either due to Iran crossing the 'red line' and inflicting US casualties, or because the threat to shipping has become unacceptable, it is likely to seek to limit the use of retaliatory force to selective strikes that avoid Iranian casualties and non-military infrastructure; for example, targets such as IRGCN assets on Qeshm, Larak, and Abu Musa islands near the Strait of Hormuz. Such action would raise the risk of Iranian retaliation that could escalate into a full-scale conflict. Outside of such a scenario, the US is likely to conduct cyber and

other covert operations against the Iranian military and government. The administration of US President Donald Trump wishes to prevent a crisis from escalating to a point close to war, where international mediation to prevent a war that the US anyway does not want would pressure the US into making concessions.

- **Although President Trump has said that military action against Iran is on the table, the US priority likely remains increased economic pressure to drive Iran into bilateral negotiations.** The aim of US sanctions is to incentivise Iran to return to the negotiating table, presumably without the US making any concessions first. Trump has signalled a willingness to overcome US Secretary of State Mike Pompeo's May 2018 demands by stating in an interview that aired on 23 June that the US is prepared to negotiate with Iran without preconditions. Should the US reintroduce some oil export waivers, this would make negotiations more likely.
- **Iran having violated the 300-kg limit for low-grade uranium and enriching to 4.5%, or restarting work on its heavy-water reactor, in violation of the JCPOA, are unlikely, per se, to be sufficient to trigger US military action.** Iran violating the 300-kg limit and restarting Arak do not signify a leap towards nuclear breakout, nor does Iran enriching uranium to under 5%. Far more relevant to war risks would be Iran stockpiling over 100 kg of 20%-enriched uranium. Iran has said it will increase its nuclear activities every 60 days (the next being in early September 2019), so the risk that the Europeans will find Iran in violation of the JCPOA will increase, and lead to the agreement's collapse and the reimposition of United Nations Security Council sanctions.
- **Iran is unwilling to accept the current status quo and is resorting to both 'plausibly deniable' and outright attacks in the region by proxies and allies against the infrastructure and military assets of Saudi Arabia, the United Arab Emirates, and the US, and against UK shipping in Hormuz. These attacks are likely to intensify.** The Yemeni Houthi movement, which receives support from Iran, has intensified its missile and armed UAV attacks on Saudi Arabia, killing one civilian and injuring seven in a UAV attack on Abha airport on 23 June. Iran's seizure of two ships on 14 and 19 July was likely to have been a response to the British Royal Navy's seizure of an Iranian tanker near Gibraltar on 4 July and to intensified sanctions. Iran is likely to intensify its activities to raise the cost of allying with the US and to force regional as well as European and Asian states to convince the US to grant concessions.

Indicators of changing risk environment

Increasing risk

- The International Atomic Energy Agency declares that Iran has more than 100 kg of medium-grade (20%-enriched) uranium, indicating a higher risk of sudden US or Israeli military action.
- France, Germany, or the United Kingdom, all parties to the JCPOA, responds to Iran violating the 300-kg and the 3.5% enrichment limits for low-grade uranium by announcing that the JCPOA has broken down irreparably.
- A US-flagged vessel is attacked in the Gulf, forcing the US to respond.
- The US sends a second aircraft carrier or additional forces to the Gulf, indicating willingness to respond militarily to Iranian attacks on shipping (this indicator was partly triggered on 28 June with the sending of additional F-22 jets and Patriot air defence systems).
- The US or the UN Security Council attributes responsibility for attacks on international shipping to named IRGC units.
- US personnel are killed in the region and blame is assigned to Iran.

Decreasing risk

- The release of Iranians possessing European or US citizenship held in Iran, indicating Iran's willingness to engage in trust-building measures.
- A sustained ceasefire in Yemen, indicating that Iran is willing to pull back on its use of proxies and allies.
- The US withdraws some sanctions on Iran, or reintroduces waivers for oil exports, opening the way to negotiations.
- The US withdraws its aircraft carrier from the Gulf as a goodwill measure.
- International participation in naval escort duties to secure shipping lanes in the Strait of Hormuz and Gulf of Oman would reduce the likelihood of further harassments of commercial shipping in the Strait.

Iran likely to step up harassment of shipping and 'deniable' sabotage attacks, as part of its controlled escalation strategy

24 Jul 2019 - Country Risk | Headline Analysis

On 22 July, UK Foreign Secretary Jeremy Hunt said that the UK intended to join an as-yet-to-be-established European maritime security force to protect shipping in the Gulf from harassment by Iran.



UK-flagged tanker *Stena Impero* is seized as it passes through the Strait of Hormuz by Iran's Islamic Revolution Guards Corps Navy on 19 July 2019. The tanker was detained in Bandar Abbas.

Getty Images

- **The recent intensification in tempo of Iranian operations, and other indicators, point to Iran seeking to force a conclusion to its confrontation with the US on its terms, and not, as previously assessed, playing a long game, pending US elections.** The increased tempo of Iranian-sponsored provocation; the pressure on the Iranian economy from US sanctions; US President Trump's declared reluctance to take military action; and Iranian Foreign Minister Javad Zarif's comment on 18 July that there was an over-50% chance that Trump would be re-elected, all point to Iran seeking to force its confrontation with the US to a resolution on Iranian terms, in the process risking war. Even if it once was, Iran no longer appears to be playing a long game, pending the outcome of the US elections. Pro-Iranian Yemeni and Lebanese media have in recent weeks repeatedly stated that Iran has ended its 'strategic patience' policy, and is now moving towards a 'rolling response' against the US, to force the removal of sanctions. Iranian escalation will likely take the form of further harassment and seizure of commercial shipping, ostensibly on 'policing' grounds, and deniable sabotage attacks on oil shipments, putting pressure on the US's Gulf Arab allies to reduce their support for US policies. It will also likely involve attacks on US diplomatic and military personnel and assets in Iraq through local proxies, rather than by the identifiable involvement of Iran's Islamic Revolution Guards Corps (IRGC). Iran is also likely to continue to free its nuclear programme from Joint Comprehensive Plan of Action (JCPOA) limits, gradually increasing its violations of the agreement, and its pressure on the Europeans.
- **The UK decision to opt for a European task force, rather than accept the US proposal of joining a US-led force, will delay the provision of effective protection for vulnerable UK and other shipping.** The UK decision to join a European force, rather than an already deployed US force, for protection of international

shipping reflects the reluctance of Europe and the UK to be associated with the US policy of exerting 'maximum pressure' on Iran and their commitment to the JCPOA on Iran's nuclear programme. The decision is likely to delay the provision of effective protection, pending the generation and deployment of the European task force, which is likely to take weeks, leaving shipping dependent on ad hoc co-operation between the US and the small UK naval presence (shortly to increase from one to two warships).

- **Iran is likely counting on US reluctance to risk an all-out war and calculating the Islamic Republic would survive, even in the worst case scenario of a sustained US air campaign.** Iran will continue to raise the stakes and pressure the US to opt for negotiations on Iran's terms, rather than the alternative of war. Iran is likely calculating that, even if its actions result in conflict, the US has no appetite to sustain an all-out war, particularly one involving the commitment of ground forces. The Iranian government likely assesses that, even in the worst case of Iran being subject to a sustained US air campaign, the Islamic Republic would survive, regardless of the extent of material damage. Iran's survival would likely be used by Iran to show Gulf Arab states that they cannot depend on the overwhelming military strength of the US for their protection, and should instead rely on good relations with Iran.

Indicators of a changing risk environment:

Increasing risk

- Western naval forces sink Iranian small craft attempting a ship seizure.
- The US launches airstrikes against IRGC bases on islands in the Gulf, such as Lark, Qeshm, or Abu Musa in retaliation for Iranian obstruction of freedom of navigation.
- Iran stockpiles more than 100 kg of 20% enriched uranium.

Decreasing risk

- The US reinstates some oil export sanctions waivers.
- Europe resumes oil purchases from Iran, or permits the use of euros to settle Iranian oil sales.

Severe risks to civil aviation across Tripolitania as LNA forces renew push on Libyan capital

29 Jul 2019 - Country Risk | Headline Analysis

On 27 July, the media centre of the eastern Libya-based Libyan National Army (LNA) announced that its air force had carried out several airstrikes against military targets in the northwestern city of Misrata, including

Misrata airport, which is also an airbase. The Misrata militias are the main and best-equipped forces supporting the Government of National Accord (GNA), based in the Libyan capital, Tripoli. According to Misrata militia commanders, the LNA used unmanned aerial vehicles (UAVs) to attack the hangar area of the airport, without causing damage to the airport infrastructure but destroying several Turkish-manufactured UAVs in possession of the Misrata militias. Several missiles reportedly fell close to an Italian military field hospital inside the Misrata airbase. The airstrikes, the first against the city of Misrata, but following frequent strikes on Tripoli's Mitigia airport, came after LNA commander Khalifa Haftar claimed on 22 July that a "second and final" phase had begun in his forces' offensive against Tripoli, which started on 4 April.

Significance: IHS Markit has previously identified airstrikes on Misrata as a key indicator pointing to a further escalation in the LNA-GNA armed confrontation. The LNA has been trying to persuade at least some factions of the Misrata military council to align with the LNA. The announced airstrikes on Misrata indicate that these negotiations have failed and that the LNA is now ready to support its renewed push towards Tripoli (where fighting has intensified since 22 July) with airstrikes in and around Misrata. Further airstrikes will likely target the seaport, the airport, and the former Misrata Air College, posing severe risks to airport and seaport infrastructure and leading to suspension of operations. This increases the likelihood of GNA airstrikes targeting LNA positions in southern and eastern Libya, including the military areas of Benghazi's Benina airport and al-Jufra airbase. We remain sceptical of Haftar's ability to capture and hold Tripoli.

Risks: Civil war

Sectors or assets affected: All

Re-opening of Eritrea-Ethiopia border for road cargo probable within six months, interstate war remains unlikely

31 Jul 2019 - Country Risk | Headline Analysis

The Ethiopian Ministry of Foreign Affairs stated on 26 July that trade agreements with Eritrea were being prepared, but did not provide any clear timetable for when these would be finalised or signed. The Eritrea-Ethiopia border was opened for the first time since 1998 following the July 2018 peace agreement, but from December 2018 to April 2019 Eritrea progressively closed its border crossings, which remain shut despite the 18–19 July visit to Eritrea by Ethiopian Prime Minister Abiy Ahmed.



Eritrea's President Isaias Afwerki (L) and Ethiopia's Prime Minister Abiy Ahmed (R) on an official visit to South Sudan on 4 March 2019.

Akuot Chol/AFP/Getty Images

- **Eritrea's ongoing closure of the border is likely driven by cross-border trade and security concerns rather than hostility to Ethiopia's national government.** We assess that Eritrea's border closure has three key aims: first, preventing uncontrolled cross-border trade while negotiations on the regulatory framework for this (for example, the official exchange rate between the two currencies) are ongoing; second, preventing the uncontrolled return to Eritrea of exiled opposition groups, which have been organising in Ethiopia and have received an influx of discontented Eritreans since the 2018 border opening; and third, isolating the administration of Ethiopia's Tigray regional state, which borders Eritrea, is hostile to the national governments of both countries – resisting the withdrawal of Ethiopian heavy artillery from the border area in December 2018 – and which the Eritrean government likely suspects of attempting to use returning Eritrean exiles to destabilise the country.
- **The Eritrean and Ethiopian governments will likely remain committed to the July 2018 peace agreement despite the current border closure.** This continuing commitment was most recently indicated by Ethiopian Prime Minister Abiy Ahmed's July visit to Eritrea, which included discussions on bilateral relations, cordial public appearances with Eritrea's President Isaias Afwerki, and visits to the Nefasit-Decamhare highway construction project. This highway would be a key piece of transport infrastructure for facilitating cargo travelling between Ethiopia and Eritrea's ports, enabling it to bypass the centre of Eritrea's capital Asmara. Further recent indicators include continuing and regular flights by state-owned Ethiopian Airlines to Asmara; the ending, as scheduled, on 30 June of Ethiopia's remaining funding and food provision to Ethiopia-based Eritrean opposition groups (the Ethiopian government had already largely disarmed these groups in

July 2018); and parade floats featuring depictions of Ahmed and Afwerki together at Eritrea's government-controlled Independence Day celebrations on 24 May in Asmara.

- **Investment by both governments in infrastructure to facilitate cross-border trade, and projects dependent on this, will likely continue.** Key projects that will continue to receive investment include road and port construction and rehabilitation in Eritrea (likely supported in particular by the European Union and the United Arab Emirates), a railway connection between Eritrea and Ethiopia (likely supported by the World Bank and Italy), and potash mining projects on both sides of the border, whose exports would benefit from Eritrean port rehabilitation.
- **The re-opening of at least one border crossing for regular road cargo traffic is likely in the six-month outlook.** Although Eritrea's border is generally closed, ad hoc crossings by Ethiopian traders continue to be permitted erratically at Zalambessa, and likely at other border posts. The most probable border crossing to be re-opened first for regular road cargo traffic is at Bure, which leads to Eritrea's Assab port, adjoins Ethiopia's Afar region, and was personally opened by Afwerki and Ahmed in a joint ceremony in September 2018.

Indicators of changing risk environment

Increasing risk

- The cessation of pro-Eritrean statements by the Ethiopian government and the cessation of pro-Ethiopian public displays in Eritrea would indicate that the border will remain closed beyond the six-month outlook.
- The suspension of investment in cross-border infrastructure projects (especially road rehabilitation) by the Ethiopian government or European partners would indicate that the border will remain closed beyond the six-month outlook.

Decreasing risk

- The finalisation of cross-border trade regulations by the Ethiopian and Eritrean governments would indicate the likely re-opening of the border within one month of agreement.
- The completion of the feasibility study for a port and potash export terminal at Eritrea's Anfile Bay would indicate decreasing border closure risks.
- Commencement of port construction at Eritrea's Anfile Bay or Mersa Fatma, or rehabilitation works at Massawa or Assab ports, would indicate decreasing border closure risks.

Sudan's transitional agreement

26 Jul 2019 - Country Risk | Strategic Report

Sudan's ruling Transitional Military Council (TMC) announced on 25 July that the leaders of an alleged coup attempt, foiled on 11 July, had been arrested. The TMC publicly named the alleged plotters, including high-ranking officers in the Sudanese Armed Forces (SAF) and the National Intelligence and Security Service (NISS) and senior officials from recently ousted former ruling party the National Congress Party (NCP) and the Islamic Movement.



Rapid Support Forces commander General Mohamed Hamdan Dagalo (alias Hemedti) speaks to the press in Omdurman on 8 January 2017.

Ashraf Shazly/AFP/Getty Images: 631302090

- **Despite internal opposition from loyalists of the ousted government, the TMC will likely enjoy continued support from Saudi Arabia, the United Arab Emirates (UAE), and Egypt, and other regional countries, such as Eritrea, increasing the likelihood of the TMC retaining power.** Support from the TMC's main financial backers, Saudi Arabia and the UAE, in particular for deputy TMC leader and Rapid Support Forces (RSF) commander General Mohamed Hamdan Dagalo (alias Hemedti), is unlikely to wane, given that Hemedti serves their interests in the region. Not least, Hemedti is likely to marginalise Islamists in Sudan associated with Saudi Arabia and the UAE's rivals, Qatar and Turkey. Examples of this support include political and financial support in exchange for TMC troops to aid the Saudi-led military coalition in Yemen, which Hemedti claims number 30,000. Furthermore, the RSF is reportedly equipped with new military equipment from the UAE. In addition, the reported presence of French-speaking fighters in the RSF – likely Baggara Arabs from Chad, Mali, or Niger affiliated with Hemedti's Rizayqat ethnic group – indicates that

Hemedti, specifically, now also has military support from Chadian kinsmen. Hemedti is, therefore, unlikely to be removed from the TMC.

- **The arrest of several high-ranking officers and ousted officials indicates deep mistrust and increasing risks of confrontation between the SAF and paramilitary forces.** Since the overthrow of President Omar al-Bashir on 11 April, Hemedti and his 20,000-strong RSF have gained increasing influence, particularly in the capital, Khartoum, where RSF troops have been deployed in large numbers. Further, Hemedti has taken increasingly prominent positions, such as signing a political declaration with the civilian opposition on behalf of the TMC. The SAF, the NISS, and ousted Islamist political parties, such as the NCP, have been disenfranchised in this process and are likely weary of the ascendance of Hemedti, who was previously a peripheral powerbroker for Bashir in Darfur. For example, local daily newspaper the *Sudan Tribune* reported that the SAF Armoured Corps had demanded the removal of RSF troops deployed outside its headquarters, and that the TMC had arrested many Islamist officials since Bashir's removal. This mutual mistrust increases the likelihood of civil war, which IHS Markit assesses as very high, most probably fought between the RSF and a combination of SAF and NISS troops.
- **The TMC is unlikely to grant all the concessions sought by the civilian opposition, indicating that further negotiations will probably stall, likely causing strikes and protests.** Both the TMC and the civilian opposition Alliance for Freedom and Change (AFC) signed a political declaration on 17 July, which agreed the composition and leadership of the proposed Sovereignty Council under a transitional government. While this indicates that negotiations between the TMC and the AFC have advanced, disagreement over power sharing persists, which is likely to trigger protests and strikes that would delay aviation and marine cargo movements in Khartoum, including at Khartoum International Airport, and Port Sudan for up to a week. Strikes would also be likely to disrupt public services and utilities, and basic services, including healthcare, water, electricity, education, and finance, are likely to face disruption lasting several days at a time. Additionally, protests are highly likely to continue, motivated by the popular demands for investigations into security forces' use of violence during peaceful protests and for more civilian representation in the transitional government. This is especially after the resumption of internet access on 9 July following a one-month blackout, which has enabled civilians to see previously unreleased footage of RSF violence against protesters. Hotspots include the suburbs of Khartoum, and provincial cities including Atbara, El Obeid, Nyala, and Port Sudan.

Indicators of changing risk environment

Increasing risk

- The TMC is not dissolved as required by the agreement with the AFC, likely prompting the opposition to withdraw from negotiations, jeopardising the implementation of the Sovereignty Council and reducing the likelihood of peaceful elections.
- Further arrests in the security forces for their alleged support in the foiled coup attempt, indicating the TMC is purging its rivals, increasing the likelihood of a violent response by troops affiliated to those arrested. (First activated by the arrest of alleged coup plotters on 25 July.)
- Delays in establishing a Legislative Council (parliament) beyond the three-month outlook, increasing the likelihood of the TMC's securing dominance of any subsequent joint civilian-military transitional government.
- RSF fighters who have recently left Khartoum are brought back to the city by Hemedti and deployed around SAF barracks, increasing the likelihood of fighting between the SAF and the RSF.
- Renewed disruption to vital economic sectors, notably oil exports and fuel imports, increasing the likelihood of the TMC attempting to break strikes by use of overwhelming force.
- Evidence of Qatari government representatives starting to attend more meetings on Sudan (other than talks brokered by the European Union, the United States, and the African Union), indicating likely increasing support for Islamists aligned against the TMC, increasing likelihood of civil war.

Decreasing risk

- The fragmentation of the AFC coalition, indicated by some of its members agreeing to take part in the Sovereignty Council, Cabinet, and Legislative Council closer to the terms of the TMC rather than of the AFC, decreasing its ability to put pressure on the TMC's leadership.
- The United Nations Security Council imposes sanctions on Hemedti and the head of the TMC, General Abdel Fattah al-Burhane, for war crimes, deterring them from continued violence against protesters, forcing them to make greater concessions in transferring power to civilians.
- Although unlikely, Egypt, Saudi Arabia, and the UAE withdraw support from the TMC, most likely under pressure from by the "Sudan Troika" of the United States, the United Kingdom, and Norway, reducing the TMC's funding and its ability to retain power. (The meeting on 21 June in Berlin, including representatives from the "Sudan Troika", Saudi Arabia, the UAE, and Egypt, indicated that there is unlikely to be significant pressure from the US.)
- Saudi Arabia, the UAE or Egypt, most likely because of pressure from the "Sudan Troika", grant Burhane and Hemedti immunity from prosecution for war crimes, increasing the likelihood of their leaving Sudan and peacefully handing over power to civilians.

Ethiopian trucking restrictions likely to increase export transportation costs, but subsequent logistics privatisations will likely mitigate these

24 Jul 2019 - Country Risk | Headline Analysis

The Addis Ababa City Administration on 8 July banned heavy trucks from operating in the city between 6.30 am and 8 pm, unless a fine is paid of up to ETB1,000 (USD34) per truck, per day. This is intended to support the quicker flow of traffic, reducing delays for other road users. Logistics in Ethiopia are already costlier and more time-consuming than in the rest of the region, and interventions by the government have so far had only a limited effect. The most high-profile project was the inauguration of a rail-link between Addis Ababa and Djibouti. Although the railway has the potential to significantly reduce travel time, it has been beset by problems – notably being completed 18 months behind schedule, facing an erratic power supply, and livestock collisions disrupting services – meaning exporters are still heavily reliant on trucking.

Significance: This new regulation will likely be disruptive to and increase costs incurred by exporters of perishable goods, notably floriculture and meat businesses, who use air cargo services out of Bole International Airport. These exporters are lobbying the city administration to grant them an exemption based on their need for short transit times. The floriculture lobby has support from the Ethiopian Investment Commission and is therefore likely to secure a reduction in the fees. In the two-year outlook, exporters can expect improvements in the logistics sector. In September 2018, the government announced that it would open the logistics sector to foreign investors, and the state-owned Ethiopian Shipping and Logistics Service Enterprise (ESLSE) is currently preparing to sell a 40% share to a private, foreign investor. ESLSE has a de facto monopoly over multimodal transportation, but the limited capacity of its sea cargo and dry port operations are one of the biggest causes of delays. The introduction of private players in multimodal transportation would indicate a likely increase in efficiencies and reduce costs associated with delays. This will combine with the government's expansion of the rail and road network, particularly around the industrial parks, to bring the country's logistics sector more in line with regional averages.

Risks: Regulatory burden; Ground

Sectors or assets affected: Agriculture; Cargo; Wholesale and retail trade

Suspension of cargo tariffs scheme averts strike by Brazil's lorry drivers, stoppage still likely over other issues

23 Jul 2019 - Country Risk | Headline Analysis

Yesterday (22 July), Brazil's National Land Transport Agency (ANTT) announced that it has suspended a road cargo tariff scheme introduced by the government two days earlier. The scheme, the result of a study by transport experts, introduced minimum cargo tariffs that were 50% lower than those agreed with lorry drivers in May 2018, after a three-week strike that virtually paralysed Brazil's road transport. The suspension decision came after lorry drivers' associations announced that they were ready to strike from 22 July unless the new scheme were cancelled. The ANTT acted at the behest of the government after Minister of Infrastructure Tarcísio Gomes de Freitas recognised that the lorry drivers' concerns needed to be addressed. Director of ANTT Davi Barreto said that suspension was necessary to avoid the "economic and social damage" that a strike would cause. Barreto also admitted that the modified scheme had not included fuel and road toll costs in its calculations, an omission that put lorry drivers' livelihoods at risk. Separately, there are three legal challenges by the private sector before the Supreme Court (STF) that call for the original tariff scheme agreed in May 2018 to be declared unconstitutional; the STF will issue a ruling in September.

Significance: The suspension of the new tariff freight scheme averted a strike that would have been damaging to the economy, which has already experienced a marked slowdown. A strike would also have been politically damaging, at a time when the government's priority is to obtain approval of its pension reform. However, the risk of a strike has not been excluded by the suspension decision: lorry drivers have repeatedly complained that the government has not fulfilled its commitment to provide fuel subsidies and guarantee soft credit lines to the sector, as agreed in the deal that ended last year's strikes. Both these commitments are very difficult to meet, given significant federal budget constraints. Moreover, should the STF rule against the tariff scheme, accepted by the drivers' associations in May 2018, a strike would be inevitable.

Risks: Labour strikes; Protest and riots

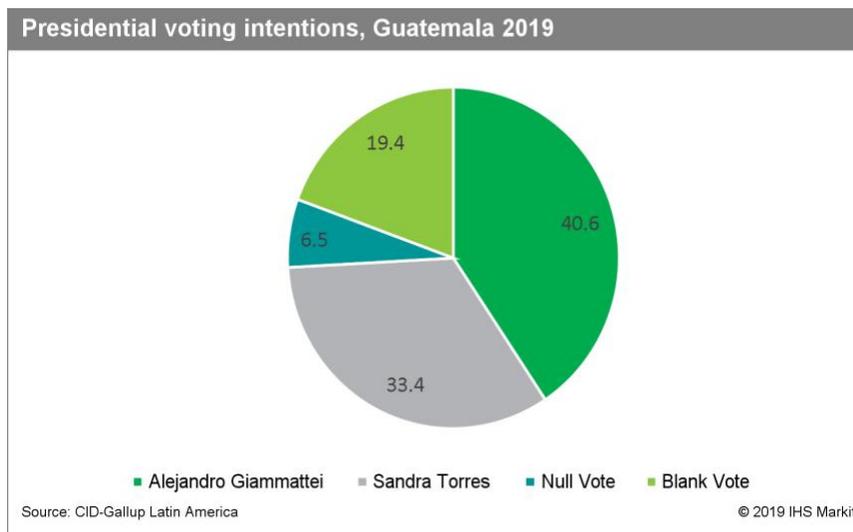
Sectors or assets affected: Road cargo; Marine

Guatemalan exporters to face increased US-imposed tariff risks unless August presidential run-off winner negotiates migration-mitigation strategy

25 Jul 2019 - Country Risk | Headline Analysis

Guatemala will hold its second-round presidential election on 11 August: this represents a run-off between outsider VAMOS candidate Alejandro Giammattei and social democratic UNE candidate and former first lady Sandra Torres, with the winner to take office in January 2020. Co-ordinating Committee of Agricultural, Commercial, Industrial, and Financial Entities (CACIF) head Juan Carlos Tefel warned on 23 June that US threats to impose economic penalties for Guatemala's failure to effectively reduce migration flows would have

severe economic consequences costing over one million jobs in the country, making employment generation and migration reduction key issues for the next administration.



- **The outcome of Guatemala’s presidential run-off vote set for 11 August is likely to be close.** In the latest CID-Gallup Latin America poll released on 17 July 2019, VAMOS party candidate Alejandro Giammattei led with 40.6% support versus social democratic National Unity of Hope (UNE) candidate Sandra Torres with 33.4%. Torres’s base is among rural residents and those with a lower education level, poor income, and women, while Giammattei has solid support among urban residents, particularly in intermediate cities and among younger voters, which may explain the softer voting commitment among his supporters. Voter turnout appears a key factor: Torres has stronger backing from those individuals who indicate that they intend to vote, while 40.5% of poll respondents indicated they would not be voting on 11 August. The CID-Gallup poll nevertheless indicates the potential for reversal of the 16 June first-round presidential vote in which Torres obtained 1.112million votes (22.1% of total votes cast) to Giammattei’s 608,083 (12.1%).
- **The new president needs to repair diplomatic relations with the US, which have worsened steadily over the last year.** In comments made on 23–24 July President Donald Trump threatened to implement trade tariffs and remittance surcharges against Guatemala in retaliation for its lack of progress in stemming migration flows to the US. Despite strong criticisms of the negotiating stance of incumbent President Jimmy Morales, neither candidate so far has provided alternative proposals to resolve the dispute, increasing the risk of the US imposing economic penalties in 2020. Giammattei and Torres both initially rejected US demands that Guatemala acquire safe-third-country status, requiring migrants passing through Guatemala to claim asylum in that country instead of continuing to the United States, but Giammattei has indicated to reporters on 24 July that his team would consider proposals involving Salvadoran and Honduran citizens.



Workers pack tomatoes at a US AID-affiliated farm on 29 May 2019 in Santa Rosa, Guatemala.

John Moore/Getty Images

- **Primary sectors at risk from sanctions would include clothing and textile producers and agricultural exporters of products such as bananas, coffee, and sugar.** Should President Trump implement related financial penalties as well as trade sanctions, these would damage remittances that totalled USD9.2 billion, or 12% of Guatemala's GDP in 2018, according to Guatemala's Central Bank. Restrictions on remittances would most hurt purchasing power in the Huehuetenango, San Marcos, Quiché, Quetzaltenango, and Guatemala departments. Trade sanctions also threaten major impacts on Guatemala's economy. Of total exports worth USD11 billion, or 14% of GDP, some USD4 billion were sent to the US (equivalent to 5% of GDP), according to CACIF's Tefel.
- **The next government is likely to focus on infrastructure investment and incentives for manufacturing and agribusiness to improve employment growth as well as seeking to find constructive responses to US demands.** If elected, early policy priorities for Torres would include making infrastructure investments to expand the road network, providing incentives for "maquila" manufacturers and agricultural subsidies to expand employment opportunities, improving access to business credit lines, and reforming mining laws to increase investor confidence in the sector. Giammattei has focused on free-trade zone expansion plans in Guatemala's border region with Mexico and the expansion of electricity power and public lighting coverage across the country. In addition to small and medium-size business incentives, Giammattei has proposed expanding the presence of call centres in Guatemala to create more employment for those returning from working outside the country. Budget financing under either candidate would be likely to involve broad government austerity measures, public-private partnerships for infrastructure development under existing regulations, and undertaking international borrowing to finance the policy agenda.

Indicators of changing risk environment

Increasing risk

- The president-elect refuses to meet US demands, such as increased border crossing restrictions and/or accepting deported Central Americans, as an indicator that US penalties would be applied.
- US implementation of remittance restrictions implies reduced purchasing power within large parts of the country, encouraging the closure of a rising number of small and medium-size businesses and potentially intensifying outward migration flows.

Decreasing risk

- Victory for Torres would indicate increased ease of passage in Congress for the government's agenda, as UNE holds 52 of 160 seats and is the largest of the 19 parties represented in Congress.
- President Morales adopts a close working relationship with the president-elect or steps back prior to leaving office to assist the president-elect promptly to restart talks with the US on migrant-flow mitigation strategies.
- Successfully negotiated agreements with the US in the second half of 2019, leading CACIF to renew expectations of greater economic stability, encouraging improved business confidence and expanded investment commitments.

Dispute between Mexican government and farmers likely to generate protests at highways, increasing supply-chain disruption risks

22 Jul 2019 - Country Risk | Headline Analysis

Farmers and rural workers are planning to stage a demonstration in Mexico City today (22 July), to protest against President Andrés Manuel López Obrador (AMLO)'s austerity programme. The protesters will meet at the Benito Juárez Hemicycle, a national monument, and will march to Zócalo square to agree on a national mobilisation strategy and request a process of dialogue with the government. The relationship between rural workers and AMLO has deteriorated significantly this year. The rural workers claim that the government has reduced spending in agriculture and rural funding by 20% in this year's budget and are also demanding the provision of free fertilisers and state subsidies that have been cut. The protest planned for today follows the 21 July four-hour blockade of the Autopista del Sol highway in Guerrero state by rural workers from Tecoanapa municipality, who were demanding the provision of fertilisers from the state. Prior to that, on 17 July, rural workers blocked highways in 23 of Mexico's 32 states, including in Campeche, Chiapas, Chihuahua, Ciudad de México, Estado de México, Guanajuato, Guerrero, Puebla, San Luis Potosí, Veracruz, and Tamaulipas.

Significance: Minister of Rural Development and Agriculture Víctor Villalobos Arámbula said on 18 July that the government would not yield to pressure from these groups. The longer the establishment of dialogue takes, the higher the probability of rural workers blockading highways throughout Mexico to pressure the government into meeting their demands. This would be likely to cause supply-chain disruption, including road cargo transit to the United States. About 60% of road cargo at the Port of Altamira, for example, was disrupted as a result of the blockades last week, according to the Mexican Road Cargo Association. Rural workers in states such as Michoacán and Guerrero are also likely to block railways, replicating a tactic generally employed by teachers' unions in those states. The use of the military to dismantle highway blockades, accompanied by the use of violence against them, would increase the risk of the blockades intensifying in frequency and intensity (up to eight hours). Supply-chain disruption risks are also likely to increase over the next year as a result of migrants protesting at border crossings.

Risks: Protests and riots; Labour strikes

Sectors or assets affected: Agriculture; Ground transport

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